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**THE THREAT FROM RUSSIAN ORGANIZED CRIME**

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Y 4. IN 8/16:C 86/3

The Threat From Russian Organized C...

HEARING

BEFORE THE

COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

APRIL 30, 1996

Printed for the use of the Committee on International Relations



NOV 27 1996

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# THE THREAT FROM RUSSIAN ORGANIZED CRIME

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TUESDAY, APRIL 30, 1996

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The committee met, pursuant to call, at 10 a.m., in room 2172, Rayburn House Office Building, Hon. Benjamin A. Gilman (chairman of the committee) presiding.

Chairman GILMAN. Our committee will come to order.

Today marks the third in a series of hearings and briefings on the issue of global crime cartels, and our hearing today will focus on the threat that Russian organized crime poses to our own nation.

I am pleased to welcome as witnesses on our first panel the Honorable John Deutch, Director of the CIA, and the Honorable Louis Freeh, Director of the FBI. We thank both of you for taking the time to be with us this morning on an important issue.

We look forward to your testimony, which we expect will be a candid description of the problems and challenges that face your agencies in dealing with this new phenomenon of the post-cold war era.

There is evidence that organized crime may be the fastest growing industry in Russia today. Regrettably, we continue to hear from a number of quarters in the Administration that this rise of organized crime is merely a transitional stage, not unlike those who were considered robber barons in our own nation at the turn of the century.

The more optimistic, some might say naive, of these voices suggest that, despite the many difficulties, that Russia is moving steadily forward on a road to democracy and to stable free markets. I would certainly prefer to believe that. Regrettably, however, there is strong evidence that the truth is otherwise.

This evidence may be unpalatable to policymakers committed to supporting the current administration in Moscow. However, failing to recognize it and to take the necessary action, simply prevents us from making a realistic assessment of the current national security challenges that confront our nation.

A witness at another hearing stated the situation very well when he noted, and I quote, "The Communist party is the only political party in contemporary history to have enriched itself at its own funeral."

As a result, it is truly impossible in many instances to differentiate between Russian organized crime and the Russian State. It is

highly possible to surmise that many aspects of the Russian State are virtually a full fledged kleptocracy—dedicated to enriching those in power and their associates.

What other nations face, especially the United States, is a deadly mix of organized crime, national political leadership, and skilled in aggressive intelligence services, supporting both.

As we prepare to close out this century, we have already witnessed unprecedented advances in the speed of transportation, in the movement of goods, and in electronic transmission of information and financial assets. Russian organized crime groups have flourished like mold in a petri dish in this new and open economic environment.

The evidence suggests is that they buy parliaments, manipulate markets and currencies, engage in money laundering and crime. There are also trafficking in narcotics as well as illicit sale of arms, including possible weapons and technology of mass destruction.

This may sound like a description of Spectre or Smersh or one of the other super crime groups in a James Bond movie, but I assure you I am not describing fiction or a movie script.

Often, using Russia as a home base, these crime cartels threaten reform to democracy in developing nations from Central Asia to South America, in addition to presenting a direct threat to the industrial democracies of the West.

Further, we shall shortly hear from some of our witnesses how these criminal activities hit us right here at home, particularly in my own New York State, as we review this growing threat. Our staff, our International Relations staff has just returned from a trip to Budapest for the opening of the International Law Enforcement Agency that was launched under the able tutelage of Director Louis Freeh and his experienced FBI agents.

They are working side by side with the entire U.S. law enforcement community at the International Law Enforcement Academy. That academy is a serious effort to try to reach out and confront the threat of Russian organized crime overseas where it originates.

We cannot afford to wait for it to reach us fully developed in our own country. Either we fight this menace overseas at a relatively lower cost, or we will have to fight it at home at a much higher cost, just as happened with the mafia.

I am also delighted to welcome Director Deutch, a man of exceptional abilities, who is currently responsible for covering the waterfront in almost all of these issues.

Before turning to Director Deutch for his statement, I ask our minority member, Thomas Lantos, if he has any remarks at this point.

Mr. LANTOS. Thank you very much, Mr. Chairman. I want to commend you for holding this hearing. I want to welcome two of our most distinguished public servants, who have done so much to restore credibility in public service and government in our nation. And I want to personally extend to Director Deutch and Director Freeh my gratitude for their exemplary public service.

Mr. Chairman, I would like to take a moment to put this hearing in some kind of a perspective. I am reminded of the English ditty which says, "What shall we do with the drunken sailor?" And we are now asking "What shall we do with Russian organized crime?"



The proper question is why did he take to the bottle? Why did Russian organized crime develop? And I do not think we should let pass the responsibility of the West in failing to lubricate this cataclysmic historic change that unfolded following the collapse of the Soviet empire.

Those of us who unsuccessfully argued at the time that it will be extremely inexpensive and extremely wise on the part of the West to lubricate this gigantic and cataclysmic change were laughed at by those who thought that they could get by on the cheap.

The notion that a centralized sick economy, run by a blood-thirsty, desperate regime, could suddenly be transformed into a market economy run by democratic political institutions was so absurd on its face that those of us who argued against the Western policy of non-involvement in the former Soviet Union, because that was the cheapest course of action, were truly baffled at the historic blindness which the leadership of the West, both in this country and in Western Europe, exhibited.

Had we lubricated the change even minimally, Russian organized crime today would not represent the threat to us and to the whole civilized world and to Russia itself that it does.

I think it is extremely critical for those who are in policymaking positions not to take the cheapest, most politically popular short-term course of action, but to think ahead in terms of long-term consequences.

I remember, for instance, an article in the Wall Street Journal by the American financier, George Soros, who argued that, given the exchange rate between the ruble and the dollar at the time, \$5 a month would provide a social safety net for millions of elderly Russians who today are loyally voting the Communist party line.

Our failure to act is in large measure responsible for the mess in which we find ourselves, and I hope at least at this stage we will take whatever actions are still open to us to see to it that Russia and the other republics of the former Soviet Union and Central and Eastern Europe will develop along a democratic and market-oriented line.

This will not take place with growing impoverishment of large segments of the population. The fact that Communist regimes were elected in free and open elections in country after country gives a terrifically significant black eye to the West. These people did not want to vote Communist 5 years after the collapse of the Soviet Empire. But because the new system failed to provide them with even a minimum of social safety net and the minimum of opportunities to advance, vast numbers of people are turning back to the detested and hated regimes of the past.

I thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Lantos.

Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

If I may, I want to present to this committee a just released report from the California Attorney General Dan Lungren's office dealing with the results of the investigation by the California Department of Justice into the threat from Russian organized crime in California.

California is in many ways a microcosm of the United States, and Attorney General Lungren's report provides valuable insights into the extent of the problem both to law enforcement and to our international banking systems and institutions.

Among other things, the Lungren report documents a scheme by Russian organized crime to defraud State and Federal treasuries of \$2 billion in fuel tax revenues. At a time when fuel prices have reached record highs in California, this is a troubling disclosure, and one which I hope will lead to action at the national level.

And at this point, Mr. Chairman, I would request permission to simply read the cover letter from this report by Attorney General Lungren. It states that "The most common criminal enterprise undertaken by Russian organized crime groups in California at this time appears to be fraud schemes, particularly fuel tax frauds designed to divert fuel tax revenue to the pockets of criminals. However, more common organized crime opportunities, such as extortion, loan sharking, drug trafficking, auto theft, prostitution, and other crimes, have attracted increasing interest among Russian organized crime groups.

The report reads that, "There are a variety of schemes involving the fuel tax fraud, including falsifying State and Federal tax forms, use of fictitious companies known as 'burn companies,' extending fuel by blending tax-free additives such as trans mix or alcohol, rigging fuel pumps, manipulating dyed fuels designed for off-road purposes, and selling lower grade fuel as a premium product, these groups are pocketing up to 50 cents per gallon in Federal and State taxes which enables them to sell the petroleum products below cost," read the report, "selling fuel below cost forces the legitimate operators out of business. Often these groups force legitimate businesses out of business using intimidation tactics through kidnapping, assaults and bombings."

So that is from the report, from the Attorney General in California.

Mr. Chairman, in our last hearing I brought to the attention of this committee the fact that organized crime in Russia today encompasses some 1500 State enterprises, 4,000 shareholding societies or municipal fund societies, 500 joint ventures, 550 banks.

In fact, a report prepared by investigators for the Russian Federation Council concludes that organized crime controls about 40 percent of the Russian gross domestic product. Previous studies have reported upon the degree of penetration by agents of the former KGB into the financial and banking structure of Russia. The most rapid growth in organized crime in Russia lies within that sector. That the Lungren report confirms that, in addition to the graph through fuel tax fraud, Russian organized crime figures are engaged in drug trafficking, extortion, loan sharking, auto theft, prostitution and other crimes in California.

And I hope that in these hearings we can put a human face on the victims of the shadowy figure of the Russian, KGB mafia that has been sketched in previous hearings, particularly as it affects my home State. And I look forward to the testimony of our witnesses.

Thank you, Mr Chairman.

Chairman GILMAN. Thank you, Mr. Royce.

Mr. Hyde.

Mr. HYDE. Thank you. No statement.

Chairman GILMAN. Mr. Martinez. Mr. Manzullo.

Then we will proceed. Mr. Deutch, you may proceed. You may put in your full testimony in the record, summarize it, whichever you prefer.

### **STATEMENT OF JOHN DEUTCH, DIRECTOR, CENTRAL INTELLIGENCE AGENCY**

Mr. DEUTCH. Thank you very much, Mr. Chairman. I am pleased to appear today to discuss the threat of Russian organized crime.

The activities of Russian criminal organizations are a threat to the national security interests and our fundamental interests to the intelligence community for two reasons.

First, continued progress by Russia, a country that remains a formidable nuclear power, toward democracy and a market economy is in our interests. However, political, economic stability, governability in Russia is undermined by criminal penetration of the economy and the attendant problems of corruption. This is also true in other parts of the former Soviet Union.

Second, Russian criminal groups are significant threats outside the frontiers of Russia and the former Soviet Union. These groups participate in drug trafficking that crosses international borders, including our own. They cooperate with other criminal organizations such as the Colombian drug mafia. Russian criminal organizations have the potential to support terrorism and contribute to the spread of materials, technology and weapons of mass destruction.

In my unclassified remarks today, I would like to focus first on the threat of Russian organized crime to political and economic reforms in Russia, and then on the international dimension of the Russian criminal activities.

First, organized crime threats in Russia. Public commentary in Russia, confirmed by our analysis of all source information, indicates that organized crime and corruption pose an increasing threat to political and economic reform in Russia.

A link between the governing elite and the criminal elements impedes the ability of the Russian Government to meet the population's expectations of social justice, a quality of opportunity and improved living standards.

Criminal groups have been able to penetrate and thrive in the post-Soviet economy for four reasons:

First, the sudden collapse of central planning, and efforts to privatize State enterprises have created vast new opportunities for individual enrichment. The remaining government enterprises are not making sufficient money to support their employees.

Second, a consequence of this circumstance, many Russian officials are ripe for bribery and corruption.

Third, Russia is in the process of developing a legal infrastructure necessary to regulate this activity, but has not done so yet.

And, finally, the law enforcement agencies in Russia are understaffed, underfunded, and plagued by corruption.

The Russian Government has offered some sobering statistics on criminal penetration of their economy. Yeltsin administration offi-

cials claim that some 70 to 80 percent of private businesses in Russia are paying extortion fees worth 10 to 20 percent of total retail sales. The MVD, the Russian Interior Ministry, also estimates that criminal groups and businesses are exporting \$1.5 billion a month to Western bank accounts.

Criminal groups have made substantial in-roads into several lucrative economic sectors, including energy, metallurgy, constructing, banking, retail trade, and transportation. Widespread corruption at many levels of the government in Russia facilitates the growth of organized crime.

The implications of these activities for stability are quite important. The crime and corruption bodes poorly for Russia's overall development. Although the sources of this corruption are rooted in the Soviet past in Russia, there is a popular perception that democratic and free market institutions are responsible for the breakdown of law and order in the country. This fuels public support for hard-line politicians.

Violence associated with crime is an increasing conspicuous part of the Russian landscape. The Russian murder rate has approximately doubled over the last 3 years to a level more than twice that of the United States.

There is, of course, an implication for U.S. and Western businesses who try to do business in Russia. The pervasiveness of crime and corruption in Russia and other newly independent states make it difficult for U.S. and Western firms to do business honestly in Russia. Criminal groups and disreputable businesses have the advantage of using their political connections, payoffs and intimidation to secure lucrative deals at the expense of free and fair competition.

Needless to say, such a business climate impedes the flow of much needed outside foreign investment to the Russian economy.

Let me next turn to the overseas reach of Russian organized crime. Russian organized crimes are extensively engaged in arms trafficking. Most of the activity apparently involves the Russian military, which is also plagued by corruption. Poor living conditions in the military, recurring wage arrears have been exploited by organized crime groups to lead to the theft and illegal sales of weapons and other military stocks, and this has become a routine practice in the Russian armed forces.

Since the collapse of the Soviet Union, Russian crime groups have spread rapidly beyond the former Soviet borders, and have a presence in up to 50 countries. Their international reach is most pronounced in Eastern and Central Europe where Russian criminal groups are involved in narcotics and weapons trafficking, car theft and money laundering. The most sophisticated Russian crime groups have ties to other foreign criminal organizations, particularly for the purposes of narcotics and arms smuggling.

As I have testified previously, Mr. Chairman, we have no data indicating that nuclear weapons or significant quantities of fissile material has been stolen from Russia, although we remain greatly concerned about the potential of diversions of weapons materials and technology.

Moreover, we have no information that organized crime has planned or participated in the theft of nuclear weapons or fissile

material. We have no information that indicates organized, Russian organized crime has ever come into the possession of a nuclear weapon.

Similarly, Mr. Chairman, we have no information that Russian criminal organizations are cooperating with terrorist groups. Of course, we cannot rule out cooperation between Russian criminal groups and terrorists in the future.

Let me conclude, Mr. Chairman, by a remark about the role of the intelligence community. The intelligence community is enhancing collection and analysis in order to provide national level policy-makers and the U.S. law enforcement community with the best information and assessments on the threats posed by Russian organized crime to the United States and our interests overseas.

Mr. Chairman, the intelligence community considers the FBI to be a major customer for this intelligence. The CIA and the FBI are in regular contact on this and other international organized issues and cooperate seriously and intensively. The FBI's primary concern is how Russian criminal activity violates U.S. laws and directly affects the United States and U.S. citizens.

The intelligence community's primary concern is how Russian criminal activity is evolving and its impact on the political and economic stability of Russia and other countries vulnerable to organized crime.

Since becoming Director of Central Intelligence one of my priorities has been to increase the collection and analytic activity that supports the law enforcement community in general, and the FBI in particular. We provide information and assessments on the organizational structure, international networks, and illicit activities of Russian criminal groups to assist the law enforcement community to carry out its missions.

The Director of Central Intelligence Crime and Narcotics Center has been effective in targeting drug trafficking and terrorist organization and addressing the issue of Russian organized crime. This DCI center and the CIA, the NSA and other agencies provide focused multi-disciplinary analysis on the leadership, infrastructure, network, methods of operation and vulnerabilities of Russian criminal groups.

We shall continue to cooperatively address this very serious international threat.

Thank you very much, Mr. Chairman, for your attention. Thank you, sir.

[The prepared statement of Mr. Deutch appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Deutch.

The Director of our FBI, Mr. Freeh.

#### **STATEMENT OF LOUIS FREEH, DIRECTOR, FEDERAL BUREAU OF INVESTIGATION**

Mr. FREEH. Thank you, Mr. Chairman, members of the committee. It is an honor to appear before you with my friend and colleague, John Deutch.

With your permission, Mr. Chairman, I would submit my lengthy written statement for the record, and use a few minutes just to give you an overview of both the problem and what we see as some applicable solutions.

Chairman GILMAN. Without objection.

Mr. FREEH. Let me just begin by thanking this committee, Mr. Chairman, you personally, Chairman Hyde, for the support that you have given to the FBI, to the American law enforcement community with respect to the initiatives which are directed to solve these very substantial and very staggering problems outlined by my colleagues and the membership of this committee.

Without your committee's support, without your personal support, the training amounts, \$15 million last year, \$12 million this year, the establishment of the academy in Budapest would not have been possible, and those are solutions, those are building blocks to address the problems.

As you pointed out very wisely in your remarks, the simple proposition here from a law enforcement point of view is to extend our perimeter of defense, to have our law enforcement capability and presence far from our borders and shores where we can anticipate and deal with these very staggering problems, which will only grow worse over the years to come.

The very tragic historical mistake that was made by this government and by the FBI, in particular, was really the ignoring of La Cosa Nostra for more than 50 years in the United States, to the point where it became an entrenched and overwhelmingly powerful criminal enterprise and presence. We are still suffering from that 50 years of abstention in dealing with that problem.

We are not about to make the same mistake with Eurasian organized crime, and all the different developments that we see around the world. And I think you, Mr. Chairman, this committee, and the Congress have been in the forefront of anticipating and dealing with these problems.

In terms of the solutions, in terms of the initiatives applied to solve these problems, let me just sketch a few of them for you very briefly.

As you mentioned, we, the weekend before last, dedicated the law enforcement academy in Budapest; a very substantial and a very historic event from our point of view. At the ceremony was the President of Hungary, President Guntz, who, as you know, had the distinction of being imprisoned under both the Communists and the Nazis. Before the ceremony he told me a story about the facility which I did not know, and that was that the building was the headquarters during World War II for the Gendarmerie, which was a secret police, as well as a criminal police. And in that part of Budapest it was known as a place to be feared. Some of the units based in that very building were responsible for the killing squads notoriously seen in the Hungarian countryside.

And he said to me actually, with tears in his eyes, that the presence of the FBI, the presence of the Attorney General, and the law enforcement forces of the United States there to instruct, not simply on the science of policing, but on human dignity, on human rights, on civil rights, was a very wonderful and well received event by all of the participants.

Last year we were able to train several classes of 33 police officers coming from Hungary, Poland, Czech Republic, Romania, Latvia, Estonia, Slovakia, and Lithuania; 33 members per class, a total of 99 for the year.

In 1996, we hope to train approximately 250 officers. These are officers who come from the Baltics, who come from the Ukraine, from Russia, from countries where there is not only a lack of tradition of democratic law enforcement, but in many of those countries no memory of democratic law enforcement.

The academy is doing two things. In addition to training with respect to police management and human dignity, it is also forming the network by which police and detectives effectively operate. We are incapable of working cases here in the United States that have trans-national sources without the cop-to-cop bridges that are provided by mechanisms such as this academy. We want the ability to pick up the phone and speak to our counterpart in Budapest or Riga or Moscow, and do the things that police and detectives have to do sometimes under very quick circumstances. And this structure will perform that networking and that association of police and detectives, to enhance our capability to protect Americans.

Many of the cases that we are working with—the Russian MVD and with the other countries represented by the dissolution of the Soviet Union—are cases that are important for the safety, for the welfare and the property of Americans. We are not in the business of foreign liaison and foreign training solely to do democratic institution building in those countries, as important as that is. We are primarily there and need to be there for the protection of Americans, for the ability to develop our own cases to protect and enforce the laws of the United States.

That is only one aspect of it. As Director Deutch alluded to, the development of these countries, particularly their economic development, is dependent upon the assurance to foreign investors, particularly American investors, that the rule of law and the enforcement of democratic laws in those countries will protect their economic interest.

There is a story in the Wall Street Journal this morning that relates that between 1991 and 1995, foreign investment in Russia totaled approximately \$4.9 billion, most of that coming from the United States. In the first 9 months of 1995, foreign investment was \$889 million. In all of 1994, it was only \$189 million.

In Hungary, which has been moving very quickly both in the development of its rule of law and police institutions, they show a foreign investment of almost \$10 billion in the same 1991–1995 period.

So the presence and capability of American law enforcement in those countries is related to institution building, propagating the rule of law, protecting Americans and American investments, and also putting forth the ability to work our cases and develop evidence where there is none.

In addition to the ILEA Academy and the training that we do of foreign police officers in the United States, our FBI LEGAT program is an essential building block of all of these objectives; that is, the presence of law enforcement officers in various embassies working under the supervision of the Ambassador, and doing the liaison and training and coordination that has to be done in terrorism cases, organized crime cases, drug cases, and all the other matters that come under the general category of economic and general crimes.

Part and parcel of this formula, if it is to be successful, will require the close cooperation of American law enforcement agencies, and the close cooperation of our law enforcement and intelligence agencies. And I am proud to say that the relationship between the FBI and the CIA in this regard is, in my view, exemplary. The Director of Central Intelligence for the first time has made a priority out of the collection and analysis of information in support of law enforcement. That is a very significant and very historic change.

Mr. Deutch and I have worked very closely to coordinate the dual prong of intelligence collection and law enforcement, particularly as it relates to the former Soviet Union. We have regular meetings on these matters. Our general counsel has established working groups that meet on a bi-weekly basis. We have exchanged officers at the highest level to cross-train as well as cross-supervise the collection and the enforcement of these objectives, and I think that is a formula which is not only historic, but is going to be dependent upon our success.

We want to continue to work very, very hard in this area, not to supersede or duplicate any other efforts by our government and its various agencies, but really to supply a product and a commodity that no other Federal agency can supply in its breadth, and that is the law enforcement experience, capability of the Department of Justice and the FBI. And we look forward to serving in that capacity.

Thank you very much.

[The prepared statement of Mr. Freeh appears in the appendix.]

Chairman GILMAN. Thank you, Director Freeh, and Mr. Deutch, for your concise and very thorough analysis of the problem confronting us.

Let me direct my first question to Mr. Deutch, our director of Central Intelligence.

What information does the Agency have, Mr. Deutch, on the links between various members of both the old and newly elected Duma in the organized crime cartels, and any other Russian leaders?

Mr. DEUTCH. Mr. Chairman, we do have information about relationships, as I mentioned, between criminal elements in Russia and what we might call the Russian political leaders, including members of the Duma, and we would be happy to provide that to the committee. There are such links in existence.

Chairman GILMAN. If you would be kind enough to supply that for the committee, we would welcome it, and make it part of our record.

Mr. DEUTCH. Yes, sir.

Chairman GILMAN. Mr. Deutch, to what extent are the Russian banks under the control of the crime cartels? Is there some connection?

Mr. DEUTCH. To say that the Russian banking system is under the control of crime cartels would be going much too far. We are very much concerned about the presence of some criminal elements in some of the Russian banks, in a minority of them, but it is certainly one of those areas where we see, as we do in other countries, including this country, efforts of criminal elements to do money laundering and to take over financial institutions.



We are following, and cooperatively following with the Russians, evidence of criminal elements in their financial structure.

Chairman GILMAN. Mr. Deutch, can you tell us the current state of affairs and understanding between your agency and the FBI, and your respective roles on organized crime, as well as the level of cooperation, both in Washington and out in the field?

Mr. DEUTCH. Well, I think that probably today you have heard as different a statement on that as has ever occurred. We quite clearly and explicitly regard law enforcement as being one of our principal customers. We regard the collection and analysis of intelligence in support of law enforcement to be second only in priority to the support that we provide our national policymakers on diplomatic and military matters.

We back that up with a new and very vigorous level of cooperation, including exchange of personnel at all levels, both in the field and back here in Washington.

I would say that the relationship is strong, strengthening every day. It is a remarkably important partnership to assure that the interest of the United States and the American peoples' are protected. So I am very confident, and I might also say very proud of the way we are working with the FBI and other law enforcement agencies.

You know, Mr. Chairman, I like to say good spies make bad cops. It is equally true that good cops make bad spies. We have to work together to use each one of our talents and our skills, and we are learning to do that.

Chairman GILMAN. And we hope you are good in all of those aspects.

How can you fight money laundering and other important aspects of the organized crime cash-flow operations with their extensive control over the banking system?

Mr. DEUTCH. In Russia?

Chairman GILMAN. I am addressing that to Mr. Freeh.

Mr. DEUTCH. I am sorry. Mr. Freeh.

Mr. FREEH. I think the principal changes need to come in the form of legislation, which has certainly been considered by the Duma in part, enacted by them. Following the availability of effective legislation, there has to be a strong commitment and capability to investigate and enforce those laws. We have not seen that yet, but it is an early stage of development. It took us decades in this country to develop our own money laundering statutes, and subsequently our capability to enforce them.

I think the acknowledgement by the Russian Government officials, all the way up to the President, is that they have serious problems here. They need to be confronted with legislation and enforcement. We have been able to provide them upon request with model legislation as well as instructions. We have had Russian police officers in Quantico, as well as in in-country instruction, going through the rubrics of money laundering investigations, enforcement. But obviously they need a structure which heretofore has not been there to pursue that initiative.

Chairman GILMAN. Are you finding it is difficult to get some of this legislation through the Duma because of the criminal involvement in the Duma?

Mr. FREEH. I guess I do not know enough about the dynamics to make that kind of conclusion. I know that the legislation has been moving very, very slowly. There is legislation now before the Duma which would reverse a recent statute which legalized the personal possession of drugs and narcotics. And although there seems to be a strong intent by the Duma to change that, the legislation has not been forthcoming.

But what the reasons for that is, I do not think I have enough facts to make a conclusion.

Chairman GILMAN. How many agents do you have in Moscow?

Mr. FREEH. We have two right now, and they have been there since 1994. They have gone from 20 cases to approximately 200, and are extremely busy. And according to the Russian officials that I have spoken to, the Minister as well as the head of the FSB, they are working very effectively with their Russian counterparts.

Chairman GILMAN. They have, I would assume, a pretty heavy case load if there are only two of them?

Mr. FREEH. That is an extremely heavy case load, yes, sir.

Chairman GILMAN. Have you asked for any additional personnel?

Mr. FREEH. We have an outstanding request for one additional FBI agent, which I have discussed with the State Department and the Ambassador, and we are hopeful that will be approved.

Chairman GILMAN. Has that been a long-awaited approval for an additional person?

Mr. FREEH. According to the two agents with the 200 cases, yes. We are satisfied that it is being considered and hope that it is resolved promptly.

Chairman GILMAN. I hope we can be of some help in getting you the additional personnel that you need over there.

Chairman GILMAN. Mr. Berman.

Mr. BERMAN. Thank you, Mr. Chairman.

Director Deutch, I walked in as you were talking about the question of organized crime and nuclear weapons smuggling.

Could you give us the thrust of how you view this problem? Is this something that we should have a deep concern about?

Mr. DEUTCH. Yes, Mr. Berman. I have just recently testified in open session on this subject. I think the question of the security of previously Soviet weapons, materials and technology is a very serious question. One where we follow very closely, and very closely with many of our partners overseas.

The particular point that I was making in my testimony here today is that we have seen no evidence of Russian criminal elements taking a direct role in procuring either weapons or material, fissile nuclear material up to the present time.

But the fragility of the entire system in Russia to protect material accountability and security of their weapons and their technology and their fissile material is one of great concern. And here again, efforts by our country in cooperative threat reduction to help the Russians deal with this matter is extremely important.

But precisely on the subject of this hearing, we have no information of Russian criminal elements trying to put their hands on weapons or nuclear technology, unlike some of the other areas where we do have evidence of their very strong interest—banking, transportation, minerals and the like.

Mr. BERMAN. There is a view that says that some of these concerns can cause us to lose perspective about what is happening in Russia, and I guess that argument goes that two-thirds of Russian output is now coming from the private sector, inflation is the lowest it has ever been, the Russian economy is growing about 2 percent per year, 65 percent of the people just participated in a parliamentary election, the print media, at least, is freer than it has ever been, and that there is a substantial number of honest political leaders still in power in Russia.

Put some perspective on the good we hear and the bad that you have talked about, both of you have talked about today. How shall we be looking at this?

Is what is happening in the context of organized crime threatening to essentially bring this whole thing crashing down, or how should we react to what you have been talking about?

Mr. DEUTCH. Mr. Berman, I think that is a very important question. All of our information and our analytic effort to assess the climate in Russia, mostly, I might say, from open sources, leads us to the conclusion that the vast majority of Russian people are very supportive of a move toward democracy, and a move toward a market economy, and that they see that process as being very important for their long-term interests and the interests of the children.

But it is also the case that the kinds of concerns that we are discussing here are of concern to the Russian people; that the Russian people see the growth in crime, and the growth in violence as a threat to themselves and their families, and the internal integrity of their society, and fairness in their society.

So I think that the Russian people, the responsible Russian leadership shares many of the concerns that we are discussing here today about marshalling their resources to combat the growth of crime in the Russian society.

It is a tremendously important matter for us in our own interests, but it is an even greater matter for the interests of the Russian people.

So I would say that there is a will there to manage this problem. I do not think that it will bring down the Russian move toward democracy, but it is certainly a matter of concern that requires all of the assistance and support that we can give legitimately to the Russian people and other countries in the former Soviet Union.

Chairman GILMAN. Thank you.

Mr. Chairman, just one short final question to our FBI director.

In the context of your training programs, you are providing technical advice to these forces in the republics of the former Soviet Union and the Eastern Bloc. To what extent is there a component in your training that sort of involves the rule of law, limitations on police authority that essentially provides a perspective that I am sure did not exist in the police practices in the Soviet Union and Warsaw Pact countries before they fell apart?

Mr. FREEH. I would say the central theme in the instructions, certainly in Budapest but also the in-country instruction, as well as the teaching back in Quantico, is the element of human dignity. We teach as a course in ILEA human dignity. It is a curricula that was put together not just inside the FBI, but working with John Jay College, the University of Virginia. It is probably one of the fin-

est police ethics courses in the world, including what we teach here in the FBI and with other police departments.

We talk about human rights and civil rights; the necessity of the police to protect human dignity; and it is really a central element and central theme. I would be happy to send you some of the course materials so you could look at them.

Chairman GILMAN. The gentleman's time has expired.

Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

And I would ask Mr. Deutch, if I could, noted author and expert on organized crime, the late Clare Sterling, said that the Russian mafia, with its massive thefts from the State, is in his words "the principal cause of the terrible economic disaster of Russia today."

Do you agree with that assessment?

Mr. DEUTCH. I am not sure how I would characterize either what has happened to them as an economic disaster. I do think that it is an important feature of slowing successful economic growth there. So I am not sure that I would agree with the statement as phrased, but I do believe that crime is something which is slowing the pace of their move to a market economy.

Mr. ROYCE. Well, then, maybe I could put it this way. It was the Russian Ministry of Interior, in 1993, that estimated that about 40 percent of the turnover in goods and services were controlled by organized crime. It also estimated that in 1992 more than half the criminal groups had ties to the government.

When it is so hard to distinguish between the criminals and government officials in Russia, is it not fair to call it a crime state, in effect?

Mr. DEUTCH. I certainly would not call it a crime state, sir. No, I would not.

Mr. ROYCE. You would not?

Mr. DEUTCH. No, I do not—I would not. I mean, I would certainly not, no.

Mr. ROYCE. See, I have talked with a number of Russian democrats that have been involved in the process to try to reform, and they have reminded me that when their parliament attempted to look into the issue of the laundering out of the country of assets, and the skimming, that in fact it was Primakov, the head of the external intelligence service, that stepped in and squashed their investigation and their report, and their ability to trace the assets which were being taken out of the country by former KGB and by organized crime working in tandem.

The reason this is important to me is because we are now looking at a situation where \$2 billion was skimmed in revenue in the United States, as cited in our Attorney General's report out in California, we are looking at transferring \$10 billion to the former Soviet Union this year, to Russia this year.

And it seems to me evident that much more than \$10 billion is being skimmed by the Russian mafia, former Soviet KGB and so forth, and at the same time the government in Russia has proven itself unable to actually investigate, trace down, and return the assets that are being transferred from the State offshore that is in the billions of dollars according to the hearing we had in the Banking Committee.

And I would like you to comment on that, if you would.

Mr. DEUTCH. Well, Mr. Royce, I am not here to do anything more than report on what we see as a serious problem in the infection of organized crime in both the economy and to some extent, the political system of Russia. So some of the numbers you quote are very similar to the numbers that I just briefly alluded to in my hearing.

The question for me is how will the Russian Government deal with this problem as it tries to move toward democracy and a free economy; and, second, what kinds of threats does it convey to us abroad? And I hope that I have shared with you my view that it is tremendously serious.

But if you asked me is it my professional judgment that this is leading to a government completely controlled by criminals, my answer to that is no. And if you would say is it leading to imminent collapse of the ability of the Russian Government to govern the country, I would also say no. Is it a very serious problem that deserves every bit of their attention primarily, the answer is absolutely yes.

Mr. ROYCE. Well, could the economic discontent, when joined with the average Russian's anger over corruption and crime and violence, spell disaster for democracy and disaster for reform in the former Soviet Union?

Mr. DEUTCH. I do not think that anybody can give you an absolutely certain answer to that. But at the present time I would suggest to you no, it would not. But I did also note that there are Russians who find the strain of the transition from that old rotten Soviet system, has brought with it these problems of crime, that it does lead them to sometimes take, as you might expect, extreme political positions.

But I do not believe that it is in danger of leading to a return to totalitarianism which is, after all, the source of this problem.

Mr. ROYCE. Thank you. Thank you.

Let me ask Mr. Freeh one last question.

What has been the nature and extent of the contract killings that have been waged by Russian mafia hitmen who came here to the United States to do their contract work, if I could ask domestically for a minute this question?

Mr. FREEH. We have a number of investigations, particularly in the New York City area, where murders are analyzed as murders for hire, contract killings, in the Russian immigrant community. As you know, in the New York City Metropolitan Area, there are approximately 600,000 Russian immigrants, which is a large population, even for the city that size.

The New York City Police Department, in conjunction with the Bureau, have been looking at many of these cases. We have not found a sufficient number of them to make out any particular kind of trend, but it is certainly part and parcel of organized crime activity, and we are certain that several of the murders which we are looking at were contract murders, which is a mirror reflection of the contract murders in Russia which make up a large part of the homicide rate.

Mr. ROYCE. Thank you.

Mr. ROTH. [Presiding] Thank you.

I think we will go to Mr. Martinez for his questions.

Mr. Martinez.

Mr. MARTINEZ. Thank you, Mr. Chairman.

Yes, there is something that needs to be cleared up for me.

In Mr. Deutch's testimony he said we have no information that the Russian criminals are cooperating with terrorist groups, and also that you have no data that a nuclear weapon or fissile material have ever been stolen from Russian.

And yet I was talking to a gentleman, who was a former Soviet citizen, who is not an American citizen, but he was involved in the government over there. He tells me two things: One, is that most of the organized crime there is actually government officials, ex-KGB, and the military.

It seems to me that those people, at least two of those people, are right in the very choice situation to be able to obtain those materials.

In another testimony that is going to be given a little later on, another witness actually makes the charge that they engage in the smuggling of nuclear and strategic materials and weapons. I think this is what Mr. Royce was very concerned about, and it concerns us all. You indicate a concern.

How is it that some people seem to have information that this is going on, and we still do not?

Mr. DEUTCH. Even my intelligence community does not have all the information in the world. I am just reporting to you what information we do have.

Let me say I am not sure that there is that much of a difference. I do agree that in Russian organized crime there is a presence of ex-security service members, KGB members, and ex-military members. That is certainly the case.

And therefore I also agree with your remark that it puts those organized crime groups in a position either to try and acquire materials related to weapons of mass destruction, or to establish relationships with foreign terrorist groups outside of Russia.

All I was suggesting is that the organized crime element, we do not see yet reaching out that way. It does not mean that it will not happen. I cannot assure that it will not happen. We are certainly concerned about it for the reasons that you have mentioned, but we have no information on the role of organized crime with respect to misuse of fissile nuclear material or weapons on the one hand, or terrorist groups on the other.

Mr. MARTINEZ. Let me read to you just one short paragraph of testimony that is going to be given a little later on, because it does not say that this might happen or will happen. It says it has happened.

It says, "Organized crime from the former U.S.S.R. provides an international security threat because it engages in smuggling of nuclear and strategic materials and weapons." It says engages. That means already, past tense. It is doing it.

"Specialists from the military, industrial complex and computer industry work for organized crime groups and for rogue states. Former members of the KGB work for organized crime groups as money launderers, communication specialists and other capacities."

Now, get this, this individual actually edits for a paper in the Soviet Union, and says, "It contains suppressed transcripts between Soviet probes into the role of the KGB and the military personnel in illegal financial activities."

Now, I imagine if those were suppressed, and the terminology she used, "suppressed", means that because it revealed something that they would rather be left unsaid.

So I am wondering is there any way at this particular time to even, maybe to our FBI Director, Mr. Freeh, to delve into that one particular aspect and see if we can determine one way or the other for sure whether or not this is already going on, because this, I think, presents a greater threat than anything else?

Mr. DEUTCH. Mr. Martinez, we would be happy to look into this. I think partially this may be a definitional question. But if you said "engages", the question of organized crime "engages", now I would have some difficulty about supporting that comment with information that is available to us. It does not mean it is not so. The point I am making is we have no information that would support that at the present time.

If somebody else had information, that would certainly influence my comment. We do not have such information.

The rest of what you read I do not think that we would have that great a difference in, but we would be happy to look into that.

Mr. MARTINEZ. Let me ask just one more question, Mr. Chairman, because there is a Presidential election coming up in Russia, and because it is like so many other countries that we know as democracies, they really do not function as democracies because of the corruptness in the government, and there is corruptness in this government, and it would seem that those Presidential candidates would be talking about as an issue cleaning up the government and working hard or cracking down on crime.

Do you see any such indication?

Mr. DEUTCH. Yes. I believe that law and order is part of the very strong rhetoric in the campaign there at the present time in this election campaign. Russian citizens care a great deal about this. Let me tell you, Russian citizens are no different than American citizens; they do not want to be victims of crime.

Mr. MARTINEZ. Do you believe that they will actually do something, if either of the candidates who campaigns on this will work with people from the United States to help them clean up that corruption?

Mr. DEUTCH. I believe that they are trying to do something about this. And Director Freeh mentioned several pieces of legislation that is under consideration there. But unlike our tremendously efficient legislative process, they are much less able to deal with these matters, and it is going to take time, and there are going to be fits and starts, and it is a serious issue. But this is not, in my mind, at a stage where one should say that they will not be able to deal with the problem over time.

Mr. MARTINEZ. Thank you.

Thank you, Mr. Chairman.

Mr. ROTH. Thank you, Mr. Martinez.

We are going to ask Mr. Hyde for his questions because I know he has been waiting a good long time too.

Mr. HYDE. Not at all. Thank you, Mr. Chairman.

I have been reading this story by Arnaud d'Borchgrave, and he is a great reporter, in my judgment, and he says some things that are very serious. He says, "What many in the West believe to be the beginning of democratic capitalism in Russia is now a criminally focused State from top to bottom." Now, that is a strong statement, and especially in view of what Mr. Deutch just said.

But then he says this, "Thirty percent of the members of the State Duma are members of organized crime gangs. Prime Minister Viktor Chernomyrdin's personal wealth, estimated by the Israel Mossad at \$28 million 4 years ago, is now in the \$5 billion range. He has received a percentage of all oil and gas deals."

Then he says, "Of the estimated \$110 billion Russia has received officially from a variety of Western countries and international institutions over the last 7 years, about 40 percent has found its way back to numbered accounts under the control of Russia's new criminal class."

If that is half way true, we have a major problem, and I believe the ascendance of Communists, the resurgence of Communists in this election in Italy ought to give us no comfort at all. The Stalinists are now going to be making policy, in my judgment there. And, of course, we are talking about Russia now. But the ascendance of the Communists out of the dust of the Berlin Wall is a reflection of the public's lack of confidence in the successors to the Communists, the so-called free market economy. And I see this as a major problem.

And I just wonder if we are not a little too Pollyannish about it, and think it is going to work out alright. Two FBI agents are not going to train a lot of people, much less handle their case load. And asking for a third is not going to tip the scales a great deal.

So I would just ask for your comment, Director Freeh and Director Deutch, on that rather pessimistic analysis of what is happening in Russia.

Mr. FREEH. Well, I think it can be addressed on a number of levels. The comment that there is corruption top to bottom, and bottom to top, certainly we take that very seriously.

I also can report, at least from the bottom, that working now on a number of very sensitive organized crime cases with our Russian counterparts, the MVD, those cases were worked without compromise. Defendants were arrested to their great surprise. Searches were conducted in New York City untipped or unnoticed by people who certainly had the knowledge and the timing as to what we were doing. This has happened in a couple of cases. That is not being Pollyanna. That is reporting that with respect to those police partners at that level, working in one case against a very powerful Russian organized crime figure, as powerful in Moscow as he was in New York City.

We conducted the case with our Russian partners, who were here in New York City riding around conducting surveillances, monitoring Title 3's without any compromise.

Mr. HYDE. Director, if I could interrupt.

Mr. FREEH. Yes.

Mr. HYDE. It just occurs to me that the times I have been over to Russia we have met with the American Chamber of Commerce,



and I understand that big business, the big oil companies, the big soft drink companies can cope. By coping, I mean taking care of the payoffs.

Now, I probably should not say this. I do not know. The smaller companies cannot.

The Foreign Corrupt Practices Act, I think it is still the law. Does the FBI concern itself as to whether paying off the police officials, anybody else, is going on, or are you satisfied it is not going on? Or have you looked at that?

Mr. FREEH. Yes, we have. We have a number of cases, active, pending cases, investigations in that area, not just in that part of the world, but in many other places. It is a very important statute to us. It is a very difficult one, as you can imagine, to enforce, but we work the cases very actively, and we do not assume that that is not a major problem, not just in Russia but in many other countries.

Just to go back to your earlier question very briefly, if things are as bad as that author describes them to be, and I do not have the facts or the basis to either argue with facts against it or facts for it, it is even more important for the United States to have a strong law enforcement presence over there.

Let me just give you one historical example. If you go back 15, even 20 years, to Italy, particularly to Sicily, the situation which is described by that author is very similar, almost identical to what we found from a law enforcement point of view certainly in Sicily and other areas of Italy.

The reaction at that time was not to either ignore the problem or throw up our hands, but to begin to work very carefully and very persistently with those police partners that we could identify as honest, whether they be Judge Falcone or other very courageous people, some of whom were killed during the course of that fight.

The net result of that 20 years later is a manageable program where we can enforce U.S. laws and protect Americans and Italians against the same common enemy.

So I think if the problem is as great as that author describes it, and it might be, I do not know, it is even more important that we have at least two FBI agents there, not to train the Russian police so much, but to protect American interests and to enforce our laws as need be.

Mr. HYDE. My time is up, but, Director Deutch, if I might just ask one question.

Mr. DEUTCH. Please.

Mr. HYDE. I take it the Agency liases with the Mossad. Does the Agency have any information on whether the Prime Minister has a bank account in the billions, or is that classified maybe?

Mr. DEUTCH. Mr. Chairman, I would be happy to talk to you about this particular point elsewhere.

Mr. HYDE. OK.

Mr. DEUTCH. Let me go back to the question of Pollyannish, OK, because I think that that is really very much, so to speak, what I have got to worry about.

We try to assemble as much information as we can and suggest to our policy customers what the future is like with respect to crime in Russia. Our policy customers on the one hand is the Presi-

dent and Secretary of State; on the other hand very importantly, Director Freeh. And it is as important that we do not underestimate that threat or overestimate that.

And I think, quite frankly, and I hesitate to get characterized as either a scare monger about it or Pollyannish about it. But I do think that the facts do not support, and it is an important judgment, it may be a wrong judgment, but it is certainly an important judgment, that this criminal issue in Russia has gotten to such an extent that they are going to be unable to proceed with their process of governance, the stability of their institutions, and their slow but hopeful moves toward a more democratic society.

I know it is a very important point, but to say that we should face our future policy on the fact that this criminal presence has so infected their system that it is not going to be possible for them to govern, I think would be a mistake in judgment. And I want to say that to you clearly. It may be a wrong position, but that would be my position based on the facts as I know them.

Mr. HYDE. Thank you.

Thank you, Mr. Chairman.

Mr. ROTH. You may have noticed I allowed Mr. Hyde to run over his time because while we have open, fair government here in American we do have chairmanships, and he is chairman of the Judiciary Committee.

[Laughter.]

Mr. HYDE. I did not know you knew. Thank you, Mr. Chairman.

[Laughter.]

Mr. FRAZER. Mr. Freeh, in December, while in Russia to observe the elections, I had an opportunity to speak with your two agents. I want to follow up on what Mr. Hyde said.

Is it reasonable to expect that two FBI agents are really going to make a dent in what is happening in Russia as we are speaking about crime? Just two?

Mr. FREEH. There are just two residents in Moscow, but there is a whole package and support system that goes with that. We are not depending on two FBI agents for all of our liaison with the Russian police.

Let me give you an example. As part of that liaison, the agents in Moscow discussing with the Minister of the Interior realized that within the Minister of the Interior, which is a civilian police, they had no internal affairs unit, no office of professional responsibility, no means of policing themselves, which in any democratic police establishment would be a great deficit.

They started a discussion which resulted in a number of high-ranking Russian police officers coming to Quantico, Virginia, for an instruction, a course on how to set up an internal affairs unit in a police department.

Those senior police officials who took that training, along with Ukrainian officers, went back to the MVD, and established for the first time in 4 years an internal control unit.

In addition to that, we have agents in Moscow instructing on economic crimes, on banking, on hostage negotiations. So it is not just the two agents. The two agents are permanent presence to liaison and do everything else, but there is a whole support system that backs that up.

Mr. FRAZER. I notice you very politely responded to Mr. Gilman that you were hopeful that your request for another agent would be forthcoming. I understood your reason for deftly responding thus, but I do not have to be as nice as you were. But I think that you should—well, on your behalf, the FBI's behalf, I would say it is unreasonable that we should expect that your request for one other agent should take so long in coming. I think that you should take up Mr. Gilman and the members of this committee, this body, that you get more agents, because I am sure that you would like to have more.

I think we send you to do battle in places like Russia without arming you to do a good job. I do not think it is fair, and I think that you should make such a request.

I would like to ask, we are encouraging foreign countries to make investments in Russia somewhat to promote a market-oriented economy. But foreign investors doing business in Russia recognize the threat, the personal threat to themselves, to their lives.

Could you tell me what is it that we, the FBI, or the American people who encourage American businesses to go to Russia, do we appreciate the seriousness of the threat? And if in fact it is that serious, how is it that we could realistically or in good conscience encourage American businesses to do business in Russia?

Mr. FREEH. I think one of the things we can do, Congressman Frazer, and, again, this is another argument in favor of our presence in Moscow, we have had a number of instances where American companies have contacted the FBI agent in Moscow and reported threats, reported extortion situations.

In every one of those cases we have taken those complaints to our counterparts in the MVD, who are dependent on us for a certain other support, and who, as a result of that, responded very, very quickly with contacting the companies, conducting investigations. In some cases, actually completing investigations and making arrests. So one of the reasons for those agents are exactly that.

When I was in Russia I spoke to numerous American businessmen. They have contacted us here in the United States prior to making decisions. They feel very comfortable, not guaranteed, but feel very comfortable about the fact that there are American law enforcement officers in Moscow who they can and do contact. That is one of the services and one of the things that we can provide for them.

Mr. FRAZER. Director Freeh, before getting involved in Russia, we recognize your good work in places like Sicily and Italy, the relationship with the Judge Falcone.

But we also know that there was some kind of democratic structure in Italy and Sicily, one that did not exist in Russia.

What peculiar problems are you experiencing because of the lack of the history of democratic structure in Russia?

Mr. FREEH. I think really all the problems that were set forth here. There is no civil legal structure by which business people can resolve contracts, which is one of the reasons that many are dependent on extra legal means to protect their businesses and property.

Everything in Russia is new. I mean, everything within 4 years, including democracy, including economy, including the objective, if

not the reality, of democratic policing is new. There is a whole new court system that does not know how to operate. There are lawyers that do not know how to advocate. There are rights that cannot be enforced because there are no statutory bases for those.

So you are absolutely right, in Italy we had none of those infrastructure deficits, which is why I think the problems in Russia are much more serious, much more immediate, and may ultimately overwhelm us. But I think we are at a critical juncture now where we need to invest some really modest means of capability.

Mr. FRAZER. Thank you, sir, and good luck in this mission impossible.

Mr. FREEH. Thank you.

Mr. FRAZER. Thank you, sir.

Mr. ROTH. Director Freeh, when we read in the newspaper about organized crime in Russia, I think many times we have a notion that it is organized crime like we have here in the United States.

Basically, how does organized crime here in the United States differ from the organized crime they have in Russia? I know it is much more pervasive there.

Mr. FREEH. Yes. You know, in terms of the numbers, there are certainly more members in the various strata of Russian organized crime. In the United States, which unfortunately has the model that La Cosa Nostra had, but actually historically the Americans went over to Sicily and set up the infrastructure for the Italian mafia. Here and in Italy there is a hierarchical structure. There are defined leaders and bosses, and councils that meet on enterprise business.

In the Soviet Union, even going back to pre-Czar days, there were strong organized crime groups and presences. Some are regional, some are ethnic, some are related to various industries or even neighborhoods. There is a much more common occurrence of various groups joining together in common enterprise, wherein in Italy and the United States there are very territorial operations, family to family, group to group.

There is the same, however, preoccupation with penetrating legitimate business, corrupting government officialdom, and those objectives, but particularly the profit-making objectives, are very identical.

Mr. ROTH. Does organized crime in Russia have a real toe hold with the Duma?

Mr. FREEH. Again, I do not know that. That is the reporting information, people who have data to support that have made those arguments. I do not know that from my own knowledge or experience, but based on reporting sources and open sources, there is a strong belief.

Mr. ROTH. If they have that strong link into the Duma, how are you ever going to get laws passed in the Duma to go after organized crime?

Mr. FREEH. It is a problem, but they did just pass a money laundering statute in Russia. Now, whether it is going to be enforced and applied by the courts is round two, but there is now a new statute on money laundering which we have been looking for for several years.

I think it is a combination of factors. The statutes, when they get them, do not mean anything unless they are enforced vigorously and honestly.

Mr. ROTH. Director Deutch, what kind of criminal activities is the Russian company Nordex involved in?

Mr. DEUTCH. Mr. Roth, I do not think that I can get into Nordex's activities here in open session.

It is an example of an organization associated with Russian criminal activity moving out of Russia and establishing itself, in this case, I think, principally in Vienna. But to talk about it in any greater detail, I think would be inappropriate here.

Mr. ROTH. Does Russian organized crime have tentacles all over the world?

Mr. DEUTCH. As I mentioned in my testimony, we believe that there is evidence of organized Russian crime present in about 50 countries across the globe.

Mr. ROTH. You noted in your testimony that there is no evidence to date of organized crime being involved in the theft of nuclear weapons.

I was reading in the Wall Street Journal a couple of weeks ago an article about organized crime taking missile technology, chemical weapons and selling them overseas and so on. There must be some basis for that.

Mr. DEUTCH. Well, I thought I restricted my remarks to nuclear technology, nuclear weapons, fissile material. I also testified separately that there is plenty of evidence of organized crime in arms smuggling in military equipment, in general. That is part of their core business areas.

So specifically what you have in mind, my answer would be absolutely. We would have to get down to the specifics of what—

Mr. ROTH. You know, whenever you sell something you have got to have a system.

Mr. DEUTCH. Yes.

Mr. ROTH. Do they have an international system in these various countries?

Mr. DEUTCH. Yes.

Mr. ROTH. How do they work through? What kind of system do they have? How do they work through that?

Mr. DEUTCH. Well, they work through cover businesses, and they work through different trading companies, fictional trading companies in different parts of the world.

Mr. ROTH. OK, Mr. Hamilton, do you have any questions?

Mr. HAMILTON. Thank you very much, Mr. Chairman.

Gentlemen, we welcome you before the committee. We appreciate your testimony. I just want to ask a few questions, largely, I think, about the politics of crime.

Are you persuaded that President Yeltsin is vigorously using the powers of his Presidency to go after crime in Russia?

Mr. FREEH. I do not think I could offer an accurate assessment of that. From where we sit in terms of our dealings with the law enforcement community in Russia, we see, at least on an episodic basis, very strong commitments to supporting our investigations, to relaying information that predicates new investigations, requests to assist both in training. How high that goes and how pervasive that

is is hard to say because we deal primarily with one ministry, the Ministry of the Interior.

Mr. DEUTCH. I think there is no question, Mr. Hamilton, that law and order is part of his campaign, and he is serious about it. He has a very complicated and difficult political problem. It is not as high on his agenda as I wish it were, but I think there is no question about the fact that it is—

Mr. HAMILTON. Why is it a political problem? I mean, should not everybody be against crime?

Mr. DEUTCH. He has other political problems, I mean. He has got Chechenya, he has got all kinds of issues which are competing for his attention. But I do think there is evidence that, in general, the government and the legislative branch are moving to deal with issues, however slowly.

Mr. HAMILTON. Is it a hot issue in the political campaign today, crime? Are Yeltsin and Zyuganov charging each other with being soft on crime?

Mr. DEUTCH. I do not know that they are charging each other. But I do think that each one of them has a strong law and order plank in their—I do not know that they are charging each other on being soft on crime.

Mr. HAMILTON. The President is pretty powerful over there. And if he really wanted to crack down on crime, I would think he could be very tough about it, very visible about it. And Mr. Yeltsin totally controls the media. The other guy (Zyuganov) cannot even get on television. I would think Yeltsin could be very strong.

So your testimony is that, yes, it is an important matter to him, but not as high as your personal preferences would suggest; is that what you have said?

Mr. DEUTCH. I would say yes, it is an important matter for him, and he has to make that judgment about where it stands. It could certainly be higher, there is no question about that.

Mr. HAMILTON. Among the Russian people is crime a big issue, a big deal?

Mr. DEUTCH. It is a very big deal.

Mr. HAMILTON. A very big deal with them.

Mr. DEUTCH. As we talked about that a little bit earlier, and I think it is interesting that you simultaneously when you look at the best that experts have, this is largely open matters, this is not clandestine, that you get a sense that the average Russian person likes the move to democracy, likes the move to a market economy, but is very concerned with the transition period because of the birth and the old Soviet system of the crime and corruption that is coming with it.

There was plenty of crime and corruption in the Soviet system as well, so we have to remember what we are comparing to.

Mr. HAMILTON. Yes.

Mr. DEUTCH. It is not a Jeffersonian democracy there, but it is a lot better than it was there in the Soviet system, but there is plenty of concern among the people about the impact of corruption and crime on both their economic well being and on the political system.

Mr. HAMILTON. Have they had any convictions of high-level government or Duma officials?

Mr. DEUTCH. I believe so, yes. I mean, I do not know about Duma officials—we will have to get you specific points—but they have had some very big internal criminal investigations.

Mr. HAMILTON. And convictions?

Mr. DEUTCH. Yes.

Mr. HAMILTON. All right.

Mr. Director, are you impressed with their capabilities at prosecuting and convicting high-level government officials of corruption?

Mr. FREEH. No. I think overall the entire system of resources, both on the law enforcement level, on the prosecutorial side, and also on the judicial side, is very inefficient. They see themselves as very inefficient. To mobilize an investigation, particularly a complex one, and support it all the way through a court system, a new court system, to a fair resolution, whether that be conviction or otherwise, is a very overwhelming task for them at this point, which is why they are here not just to learn from our police, they are here to learn from our judges.

We have American judges who are regularly in Moscow instructing the judges, modeling legislation for them.

The very idea of an independent judiciary is a new idea for that country, and these are all things that are happening at the same time.

Mr. HAMILTON. Do you have any complaints from American businesses about the impact of criminal activity in Russia on those businesses?

For example, I was talking to some American business people the other day. They were operating a small plant in Russia, and some thugs just came in and took over the plant, and they have no recourse. They lost all their investment. They are out of the game. I do not know if that is a very occasional occurrence or whether it happens frequently.

What is your sense of that?

Mr. FREEH. I think it is fairly frequent. We get, even in our Moscow office, complaints from American businessmen, which we take directly to the MVD for a response.

Mr. HAMILTON. You cannot do much about it. You have to turn it over to local authorities, is that—

Mr. FREEH. That is correct. We cannot do anything about it there.

When I was visiting Moscow in 1994, there was an American businessman staying in the hotel, very large corporation. And he told me at the end of about a week he had decided to recommend to his CEO that the American company invest in South Africa as opposed to Russia for those very reasons that you cite.

So I think it is a serious problem.

Mr. HAMILTON. What is your general observation with respect to corruption and criminal activity within the law enforcement agencies themselves in Russia?

Mr. FREEH. I think it is a very serious problem. The pay scale for police officers, even the detective investigative level, is very, very low; so low that probably with that salary alone it would be very difficult to support a family. That has been recognized. That is certainly a factor for corruption. We have seen that even in the

United States, as the principal reason for law enforcement corruption.

Mr. HAMILTON. So you deal a lot with the Russian law enforcement officials, I presume. You have to make judgments as to who is a crook and who is not.

Mr. FREEH. Yes, we do, and we do that——

Mr. HAMILTON. And you make those judgments?

Mr. FREEH. Yes, sir.

Mr. HAMILTON. So you identify people within the organization that are honest, and try to work with them; is that it?

Mr. FREEH. Yes. Part of the reason for bringing the officers here to Quantico and for networking and identifying them is that very assessment; to see who are our partners that we can trust.

Mr. HAMILTON. Now, Mr. Director, Mr. Deutch, do you deal with these local law enforcement people?

I am driving at whether or not any of our information is compromised because you are dealing with corrupt officials. Do you have that problem in Russia?

We share information with Russia on all kinds of things, and I am sure you do not want to share that with corrupt people.

Is that a problem for you and the Agency?

Mr. DEUTCH. Yes. That is a big problem for us, but we are in a different line of work than——

Mr. HAMILTON. I understand. I got that figured out, Mr. Deutch. [Laughter.]

Mr. DEUTCH. I want to point out that the low pay is an invitation, of course, to corruption, but it is throughout the whole government system in Russia.

Mr. HAMILTON. Yes.

Mr. DEUTCH. And it is one of the practical features which holds back from making progress on this issue.

Mr. HAMILTON. That is so.

Mr. DEUTCH. You know, Yeltsin fired his prosecutor general on grounds of corruption, on the grounds that not enough was being done. He sacked the prosecutor general because that individual was not getting the prosecutions done, and in large measure I believe that that was the inability of the system. The system is so badly supported that——

Mr. HAMILTON. The prosecutor general is the chief prosecutor?

Mr. DEUTCH. Yes, Yes.

Mr. HAMILTON. He is their Attorney General, is that it?

Mr. DEUTCH. Yes, sir.

Mr. HAMILTON. Thank you very much, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Hamilton.

Mr. Wynn.

Mr. WYNN. Thank you very much, Mr. Chairman.

Gentlemen, I would also like to thank you for appearing before us this morning, and my apologies for coming in a little late, and I may cover ground that you have already covered. Please bear with me.

You made a statement, Mr. Deutch, in your testimony, "The climate discourages foreign investment in the Russian economy."

I have heard actually just the opposite to be true; that the kind of lawlessness that is apparently somewhat rampant is in fact en-



couraging certain businesses to invest as a matter of last resort because they can make profits in that climate whereas they might not otherwise.

Do you find that certain more legitimate established businesses would refrain from investing in Russia while other businesses, maybe more marginal, would find that kind of climate appealing?

Mr. DEUTCH. Well, I do not think I can comment on which American businesses are investing in Russia. I do think, though, that, generally speaking, the pace of all Western investment, American plus European, has been lower in Russia than it otherwise would have been if this corruption and crime problem did not exist. I think, significantly lower.

And if you look at other countries which do not have this criminal problem as much, I think the Director mentioned Hungary, the foreign investment moving there is more favorable.

Mr. WYNN. So there has not really been an analysis of the companies who are in fact moving into Russia, to see whether they are not embracing this criminal culture?

Mr. DEUTCH. Not American companies by us. Maybe Louis has looked at the American company experience.

Mr. FREEH. We have not analyzed it in that manner. I mean, there are, as you know, a very, very large number of Fortune 500 companies there.

But, of course, as you point out, a lawlessness and a lack of legal structure encourages American criminals. We know that we have American criminals and con men and opportunists going there for that very reason. But that is a good suggestion perhaps that we look at that analysis.

Mr. WYNN. Because it came to me somewhat as a "word on the street" that that is what these guys were doing.

There is a report, apparently in New York Magazine, that Russian organized crime controls 50 to 80 percent of the banks.

First of all, do you concur with that analysis? And second, if not at that level, what level do you believe is accurate in terms of organized crime infiltration? And what is our response to that, because I would consider that to have serious ramifications for money laundering and narcotics trafficking.

Mr. DEUTCH. We keep very close track of reports on infiltration by criminal groups in the Russian banking system as do international banking organizations, and the government itself. I think that the number 50 percent is much too large an estimate, but there are some financial institutions over there which do have these connections.

Mr. WYNN. Would you be willing to venture an estimate? I am not trying to pin you down in any way.

Mr. DEUTCH. I would be happy to, sir, but only in closed testimony.

Mr. WYNN. Fine. Just one final question. Looking at this, as well as from what I have heard from other sources, there seems to be a permanent criminal culture emerging that is almost quasi-governmental, such that in future years we are going to have to deal with this kind of climate.

Is your assessment of the threat of that magnitude, or is this an overstatement of the threat?

Mr. FREEH. I think my analysis would be that the jury is probably still out on that. I think they are at an obviously critical time, as other countries have been, including certain U.S. cities, going back to the thirties and forties, as to who was really in charge, the criminals or the democratically elected officials.

I think there is a lot to be determined yet. But they are at a critical stage, which is why the Director and I think that our analysis in enforcement activities is so important at this stage.

Mr. WYNN. OK. In terms of violent crime in the United States associated with Russian organized crime, you may have, again, covered this, what is the extent of that activity? Can you describe it for me?

Mr. FREEH. Yes. I think it is certainly an essential part of the organized criminal activity. In New York City, for instance, a number of violent criminal enterprises, including murders, including extortionist activities, have been part and parcel of the organized crime presence.

The individual that I alluded to before, who was arrested, is now pending trial in New York City, is a very high ranking member of organized crime, allegedly both in the United States and in Moscow. He is charged with extortionate activities, taking over a business by extortionate means.

So the murders, the extortions, the kidnapping is an essential ingredient in their organized crime structure.

Mr. WYNN. Are they networked with U.S. crime families?

Mr. FREEH. Yes. This individual who is pending prosecution in New York City allegedly, on the information that we have, was sent to the United States by a group of Russian organized crime leaders for the purpose of organizing and controlling the Russian organized crime element in the United States, particularly in New York City.

Mr. WYNN. But I mean are they connected to U.S. groups? Not U.S.-based Russian groups.

Mr. FREEH. Yes. U.S. groups.

Mr. WYNN. But domestic organized crime here, are they linked to them?

Mr. FREEH. Yes, we have seen a number of links in narcotics cases both in New York City and also in the former Soviet Union.

Mr. WYNN. Thank you very much.

Mr. Chairman, I see my time is up, but a couple of issues were raised which suggest perhaps a closed briefing would be helpful, and I would just ask the Chairman to consider that at some later time. Thank you.

Chairman GILMAN. We will explore that at a later date. Thank you, Mr. Wynn.

Mr. Hyde, do you have any further questions?

Mr. HYDE. No, thank you.

Chairman GILMAN. At this point let me just address a couple of brief questions, and then we will get on to the next panel.

Can you tell us, Mr. Freeh, how many domestic organized crime cases with direct links to the former Soviet Union does the FBI have open at this point and under investigation? Just an estimate.

Mr. FREEH. Several hundred. As I said, there are 200 cases which the Moscow LEGAT manages. Those are all U.S.-related and U.S.-based investigations.

Chairman GILMAN. Has any of the threat of Russian organized crime spilled over into suburbs around New York City?

Mr. FREEH. Yes, it has. In fact, the case that I was just referring to with Mr. Wynn involved extortionist activity which took place primarily in New Jersey, although the subjects were New York City-based. So we see certainly a growth outside of New York City, since the metropolitan area, as you know, has about 600,000 Russian-Americans. It's a very large community.

Chairman GILMAN. One last question.

Director Freeh, when does the FBI plan and hope to have open the FBI LEGAT offices in both Tel Aviv and Cairo, which are especially important in the battle against international terrorism?

Mr. FREEH. We hope to do it by the end of this fiscal year. The Attorney General has approved those positions. We have asked the State Department to review them and concur so we can report back to Congress as required before the funding (which has already been appropriated) can be expended. We hope to do that by the end of the fiscal year.

Chairman GILMAN. Has there been an opposition to that proposal?

Mr. FREEH. Not that I know of, sir.

Chairman GILMAN. Well, again, I want to thank both Mr. Deutch and Director Freeh for appearing.

Mr. ROYCE. Mr. Chairman?

Chairman GILMAN. One last question by Mr. Royce.

Mr. ROYCE. Yes, thank you, Mr. Chairman.

We discussed briefly the concept of Russian organized crime and arms trafficking. But I wanted to bring up a question.

U.S. intelligence reports that the Russian external intelligence service is training Iranian intelligence agents. SVR Director General Primakov, an old Soviet/Middle East hand who has had a long background of support for terrorist organizations and regimes, is overseeing the operation. The Moscow/Tehran spy relationship was hammered out during a meeting in July involving the Iranian intelligence minister, and Mr. Primakov and other Russian officials in Moscow.

In addition to supporting terrorism and assassinations, Iranian intelligence officers specialize in acquiring embargo technology that can be used in weapons programs. Some U.S. security experts have expressed concern about possible renewed Moscow support for terrorism.

Could I ask you at this time if there has been a report of the Russian external intelligence service training Iranian agents?

Mr. DEUTCH. Mr. Royce, I cannot go into these subjects in open session. I would be happy to talk to you about these issues at another time.

Mr. ROYCE. OK. Thank you very much.

Chairman GILMAN. Thank you, Mr. Royce.

Just in closing, gentlemen, I would like to urge both agencies to continue to work together. With CIA/DEA cooperation we brought

down the Cali cartel, and there is no limit what we can do by your close cooperation.

Again, we thank you for your time and we wish you well in your efforts. Thank you.

Our next panel consists of Mr. Eric Seidel, State of New York Deputy Attorney General in Charge of the Organized Crime Task Force; and Dr. Louise Shelley, Professor of The American University.

If you would come forward, please.

Mr. Seidel has held the position as Deputy Attorney General in charge of the New York State Organized Crime Task Force since June 1995. He was previously chief of the Organized Crime Bureau from 1993 to 1995, and is a native of Brighton Beach, Brooklyn. Mr. Seidel is employed as an assistant district attorney in the King's County DA's office, and has been cross-designated as a AUSA in the New York Federal Courts as well.

Welcome, Mr. Seidel, and please proceed. You may put in your whole testimony or summarize, as you see fit.

**STATEMENT OF ERIC SEIDEL, STATE OF NEW YORK DEPUTY ATTORNEY GENERAL IN CHARGE, ORGANIZED CRIME TASK FORCE**

Mr. SEIDEL. Thank you very much, Mr. Chairman.

Mr. Chairman and members of the committee, I am honored by this opportunity to represent New York State Governor George Pataki and New York State Attorney General Dennis Vacco by testifying before you today. My comments will focus on an overview of the problems posed by Russian criminal groups in the New York area.

Before continuing, a caveat must be added. When discussing "Russian immigrant crime", whether by groups or individuals, it must be understood that "Russian" is the shorthand adopted over the years to include people who are born in the former Soviet Union.

Russian immigrant criminal activity is a serious crime problem in the New York area. Russian immigrant criminal groups are involved in a broad variety of crimes that range from both simple and sophisticated frauds to narcotics trafficking and murder. The most prevalent and pernicious crimes involve financial frauds.

One example is the motor fuel tax scams. In that scheme fictitious companies were set up to avoid the payment of State and Federal taxes. It is estimated that as a result of the fuel tax scams Russian crime groups have cost State and Federal Governments millions of dollars over the past 15 years. Successful Federal and State prosecutions have resulted in the dismantling of particular groups. However, the scams are continuing.

A current example is a scheme involving Russians who exploit the difference in gas tax rates between New York State and New Jersey. New York's gas tax is higher than the tax in New Jersey. Gas is purchased in New Jersey and the tax is legally paid at the lower New Jersey rate. However, the purchaser then illegally transports the gas into New York without paying the higher New York tax. The difference between the New York tax and the New Jersey tax is retained by the criminals.

opment of the society. It is not emerging in a society that is already existing. It is having an enormous effect in a transitional society.

It is also a security threat because of its participation in smuggling of nuclear materials and of arms trafficking, as was suggested.

Also, it has a range of activities. While many organized crime groups throughout the world are concentrated in a limited range of criminal activity—corruption, drug trafficking, alien smuggling—organized crime—from the former Soviet Union has a wide range and diversity of activities and enormous diversity of actors, which are much more educated than you usually find in organized crime groups. Its members come out of the party apparatus, the law enforcement structure, the security apparatus and member of the military/industrial complex. And the collapse of the technological system, or technology elite has made many of these people available to organized crime. So they have more educational and professional skills within their structures that you find in many organized crime groups that need to contract for specialist services.

Furthermore, there is a very, very serious problem of export of capital, which is quite different from what you find with other organized crime groups that often repatriate a significant share of their profits.

In Russia, as was mentioned, they have been involved in large-scale export of capital. A meeting last month sponsored by the Ministry of Interior, which found the best specialist on export of capital, stated that since the collapse of the former Soviet Union, \$150 billion has been exported from Russia, and a very significant share of this is illicit capital that has left.

And at the same conference it was mentioned that of every 1,000 cars that are imported into Russia, duty is paid on only 35 of them. This is not just a problem of corruption. It is also explained by organized crime activity, and this kind of activity is depriving Russia of its needed tax base, which makes the country ever more dependent on foreign loans.

I would also reiterate that Russian organized crime is more involved in the banking sector than most other organized crime groups. Research within Russia reveals a very high presence of organized crime in either the organization of banking sector, the management, or in influencing the banking sector. And there is a very serious problem that banks that have been identified as operating illicitly in Russia have not been able to close, or have not been closed by banking regulators.

Another problem is the privatization of State resources to organized crime. This has also been a problem in Colombia, Mexico and Italy, but there has not been as much up for grabs as in the former Soviet Union, and this transfer of resources to organized crime groups and corrupt government officials is a very serious problem.

Furthermore, in other countries organized crime groups following privatization often become passive investors. In contrast, in Russia, privatization to organized crime groups has often been a prelude to the export of natural resources and financial assets.

The last distinctive point of Russian organized crime as we have heard about earlier this morning, is that law enforcement and security personnel are key actors in this. This is an unprecedented

born in the former Soviet Union. Statistics compiled by the New York City Police Department show that in 1993 approximately 400 Soviet immigrants were arrested in New York City. In 1994, approximately 750 were arrested. In 1995, approximately 1,000 were arrested. Most of these arrests occurred in Brooklyn, and over 90 percent were for misdemeanors or violations such as traffic offenses.

While the number of individuals arrested shows an increase from year to year, the problem can be put into perspective by comparing the above numbers with the number of overall arrests by the New York City Police Department in New York City. In 1993, there were 272,000 arrests. In 1994, there were approximately 328,000.

The Russian crime problem must be addressed on several fronts. In regard to Russian criminal groups committing sophisticated crimes, frauds and violent crimes, there should be a multi-agency effort on a local and Federal level. In appropriate cases such task forces comprised of agents, police officers, and prosecutors with different areas of expertise and experience most effectively investigate and prosecute criminals who violate a myriad of laws ranging from State and Federal tax violations to immigration law violations to currency reporting violations to insurance frauds or murders.

Joint task forces further help to ensure exchange of information between State and Federal agencies investigating and prosecuting this relatively new crime phenomena.

International cooperation, most particularly on a cop-to-cop or prosecutor-to-prosecutor level is critical. It is obvious that an exchange of information between the U.S. and foreign law enforcement agents regarding international criminals and their activities can only be helpful to investigations and prosecutions.

Data bases must be developed and shared between law enforcement agencies. Professional relationships between American and foreign law enforcement agents must be enhanced through academies like the International Law Enforcement Training Academy in Budapest, Hungary, where U.S. law enforcement personnel meet and train their professional counterparts in Eastern Europe and the former Soviet Union.

Additionally, recruitment of police officers fluent in Russian and other languages spoken in the former Soviet Union is important to effective local investigative efforts.

Successful investigation and prosecution of Russian criminal groups will require major cooperative efforts on local, national and international levels. A significant commitment of resources must be made if we are to curtail their illicit activities. Thank you, Mr. Chairman.

[The prepared statement of Mr. Seidel appears in the appendix.]

Chairman GILMAN. Thank you, Mr. Seidel.

And we will ask Dr. Shelley if she would proceed.

#### STATEMENT OF LOUISE SHELLEY, PROFESSOR, THE AMERICAN UNIVERSITY

Ms. SHELLEY. Thank you for the invitation to testify here. I will summarize my remarks and introduce my full testimony into the record.

My point of view is somewhat different from the other speakers here. I am an academic specialist who has been studying the problems of Russian organized crime and lived in the former Soviet Union 20 years ago, studying at Moscow State University.

Chairman GILMAN. If I might interrupt, Dr. Shelley has been a professor of the Department of Justice Law at the American University since 1977, and a former chair of the Department. We welcome having you with us.

Ms. SHELLEY. Thank you.

Apart from that, for the past year I have been running a program with key Russian reformers in four cities: Moscow, Petersburg, Ekaterinburg, and Irkutsk, that we have designed to work together to fight Russian organized crime.

Based in universities, it is working closely with different elements of the law enforcement apparatus, the judicial system, the procuracy, and people involved in developing the criminal legislation. I tried to increase public knowledge, public will on the subject, and provide essential information needed to move the legislative framework ahead and provide capacity to train the current generation working on these problems as well as subsequent generations.

I would say one point that I think was brought out this morning but needs to be reiterated. The problem of organized crime and the perception by the population in Russia, Ukraine and elsewhere in the former Soviet Union is that it is possibly the most serious problem that is facing their countries at the present time.

My focus of the discussion, since the last couple of hours have been extremely substantive, is that there are two points that I think need to be considered, or two ways of looking at the problem.

One, that post-Soviet organized crime is different from other forms of organized crime in several important ways, and has forced a reappraisal of the way we perceive organized crime generally. And I will go into the reasons for these differences, and why they are important.

Second, I think that the problem of Russian organized crime, or I should say post-Soviet organized crime, is severe, and that it represents a new form of authoritarianism. In contrast to some of the points that were made earlier about the free elections and the extremely free press, there are very serious problems that exist today in organized crime penetration into the Duma, and particularly into the higher house of the Federation Council, the problem of organized crime financing of election campaigns, and also the very serious problem of the corrupt and criminalized banking sector buying newspapers and intimidating journalists who are trying to reveal these problems.

And because Russian organized crime is a trans-national phenomenon, its intimidation, or let us say the authoritarianism that is associated with it, is not confined entirely within the borders of the former Soviet Union, but results in intimidation of citizens abroad and intimidation of foreign newspapers that try to publish articles that reveal and expose problems of organized crime abroad.

To summarize, why is organized crime in the former Soviet Union different?

First of all, it is a phenomenon, as we have heard this morning, that has and is influencing the economic, political and social devel-

situation in organized crime, and contributes to its potency as a phenomenon.

Post-Soviet organized crime, as I have said, represents a new form of authoritarianism. As was mentioned several times this morning, it undermines the democratic system. There is, as we mentioned, a very serious problem of organized crime promoting its own candidates who acquire parliamentary immunity following their election to the Parliament, and the criminalized banking sector is presently financing different political campaigns as an insurance against post-election clean up of the banking sector.

Second, intimidation of the citizenry continues. As we had mentioned before, contract killings are pervasive throughout the country, and almost none of them have been solved.

Corruption of the Soviet prison system means that incarcerated criminals can still operate with impunity even from State prison institutions. This is something that the MVD, the Ministry of Interior is very concerned about, because even if the government manages to lock up these criminals, it cannot protect its citizens from the threat of organized crime.

Citizens who move abroad cannot feel safe because extortion rings extort highly paid athletes in the United States, and prostitutes in Western Europe are compelled to stay in prostitution because enforcers from the former Soviet Union threaten them and their families at home.

Furthermore, there has been privatization of State coercion. Privatization of law enforcement has been enormously successful. Approximately 800,000 individuals work in security bodies comprised of former law enforcement security and military personnel. These individuals are almost entirely outside of State regulation. They do not just protect businesses, but intimidate honest citizens and business competitors.

Soviet law enforcement is subject to more controls and oversight than these independent enforcers, and this concern that I am expressing here is something that I have heard from many of my colleagues with whom I work closely in Russia. They are very concerned about this privatization of law enforcement and what it means for the nexus between organized crime and these privatized security elements.

Fourth, there was the intimidation of the press and journalists domestically and internationally. Journalists on a regional level and nationally are sometimes used or subjected to what we would consider the traditional tactics of organized crime when they try to disclose problems of localized corruption and organized crime. And newspapers and magazines, as will be revealed in the next issue of *Demokratizatsiya*, which I edit, has an article on the problem that journalists face as they and the newspapers and television stations they work for are being bought up by some of the criminalized banking sector.

This is not necessarily affecting all areas of newspaper coverage, but it is certainly distorting coverage of economic reporting and news of the banking and financial sector.

And significant financial resources of Russian organized crime are limiting press freedoms abroad by using intimidating law suits, to stifle revelations in European and American newspapers.



In one recent case it is conservatively estimated that New York State and other localities have lost over \$20 million in tax revenues over the past 18 months due to this particular scheme.

Russian criminals incorporate companies and use them for a variety of illegal purposes. Between 1993 and 1995 one Russian criminal incorporated approximately 3500 different shell companies. These companies have opened bank accounts through which millions of dollars have passed. The origin of much of the money seems to be in the former Soviet Union. We do not know how much of that money is derived from illegal activities.

In addition to being used as conduits for the transfer of money the shell companies are used for a variety of other illegal purposes. Fraudulent letters of invitation are issued by these companies for the purpose of obtaining visas for Russians who want work permits in the United States. Credit cards are obtained on the companies' accounts. The cards are then sold to Russians who use them in Russia. Eventually the bills for the goods purchased with the cards are not paid.

Other crimes of fraud engaged in by Russian crime groups are Medicare and Medicaid frauds where bills are submitted for services or merchandise never provided. Schemes involving staging phoney vehicle accidents and the submission of false insurance claims, welfare frauds, counterfeiting official documents, checks, credit cards and currency.

Additionally, members of Russian criminal groups commit such crimes as murder, kidnapping, narcotics trafficking, robberies, neighborhood extortions, prostitution, shoplifting and car thefts.

The preceding picture would be incomplete without a discussion of what Russian crime groups are not in the New York area. In spite of their varied and sophisticated criminal activities, Russian groups do not exert monopolistic control over specific areas of illegal activity or sectors of the economy. Russian crime groups, while engaging in narcotics trafficking, do not control the importation or distribution of heroin or cocaine into the New York area. Russian crime groups do not control labor union locals, sectors of the construction industry, the garment district or the Fulton Fish Market. Nor do they control the garbage collection industry or illegal gambling. In short, they do not have the influence of the South American drug cartels or La Cosa Nostra.

The structure of most Russian groups is different from that of a La Cosa Nostra crime family. The Russian groups are fluid with members banding together to commit a crime or series of crimes. There might be a leader, often the person who devises the criminal plan or schemes. There does not seem to be a defined organizational structure or hierarchy which continues beyond the particular personalities.

However, it should be noted that we are aware of one Russian criminal group presently operating in the New York area that does seem to have a hierarchical structural continuity, and does seem to report to a criminal leadership in Russia.

Another aspect of the Russian crime problem is the individual Russian immigrant criminal. This is a much less serious problem than the Russian criminal group. One way to measure the scope of this problem is to look at the number of arrests of people who are

The Wall Street Journal recently had a major case that cost them hundreds of thousands of dollars as they tried to, or did defend themselves successfully after a suit following an opinion piece revealing the significant role of former KGB personnel in the Russian banking sector and overall organized crime.

This is not the only case. I also know of Western newspapers that have not been willing to assume such financial cost and have not published articles that might reveal organized crime activity abroad.

The fifth point of this intimidation of organized crime is the privatization of State resources to organized crime. Private property is the citizens' bastion against State authoritarianism. But the citizens in the former Soviet Union have acquired almost no resources from the privatization. The preponderance of property has been transferred to organized crime groups, former members of the party elite, and corrupt members of the law enforcement and security apparatus. This has enabled them to enhance their activities both here and abroad.

And civil society is subverted by organized crime as the criminalized banking sector has assumed an important role in the development of civil society and has prevented the emergence of truly autonomous groups.

There are certain important policy implications of this. The United States cannot deal with the problem of post-Soviet organized crime exclusively on the State level; that is, on the governmental level, because we are dealing either with a corrupted State or with non-state actors that the State cannot control.

Second, the privatization of parts of the KGB and NVD to organized crime means that we are dealing with a law enforcement and a counter-intelligence problem simultaneously.

Third, we must seek to establish and foster networks of non-state actors to fight organized crime. The program with which I have been working, which is working with academics who have very strong policy roles, and are able to network with those who are not criminalized elements of the law enforcement and justice apparatus, has proved very successful and has been able to integrate American governmental resources.

We must also encourage the development of authentic civil society and mass media. We need to monitor the process of privatization to make sure that we are not facilitating the transfer of resources to organized crime groups. We must use law enforcement and other legal mechanisms to ensure that naturalized American citizens from the NIS are not intimidated by post-Soviet organized crime groups, and, last, we must ensure that our aid programs do not inadvertently facilitate organized crime. We must institute safeguards on privatization assistance, law enforcement training, intelligence cooperation, and the general development and economic assistance that we are providing.

Thank you.

[The prepared statement of Ms. Shelley appears in the appendix.]

Chairman GILMAN. Thank you, Dr. Shelley and Mr Seidel. A couple of questions and then I will pass on to my colleagues.

Mr. Seidel, what has been the level of cooperation among the various Federal, State and local policy and justice agencies in ad-

dressings this very serious problem of Russian organized crime in New York? Has there been good cooperation?

Mr. SEIDEL. Yes. My personal experience is that it has been very good. Going back to, anecdotally, 1987, I was a member of a group comprised of assistant district attorneys from Brooklyn, prosecutors from the Organized Crime and Strike Force in the eastern district of New York, an FBI agent, a New York City police detective. Many of the cases, the more successful cases, dealing with investigation and prosecution of these groups have been comprised of State and Federal law enforcement agencies.

Chairman GILMAN. Have organized crime figures made deals and drawn clean turf lines with regard to their criminal activity with the traditional organized crime elements in New York?

Mr. SEIDEL. I have not seen that, Mr. Chairman. We do see contacts between the traditional La Cosa Nostra and Russian criminal groups, primarily in the oil and gas tax scams where four out of the five La Cosa Nostra families in the New York area were profiting from these illegal activities that were engaged in by the Russian groups.

But I have not seen the division into clear jurisdictional turf line.

Chairman GILMAN. Well, has there been that competitiveness and has that created any problems for the Russian criminals?

Mr. SEIDEL. Well, I think the Russian criminal groups primarily are involved in sophisticated financial frauds, and we really have not seen any problems due to friction between the traditional La Cosa Nostra and those groups.

Chairman GILMAN. What more can we do at the Federal level to make your job easier at the State and local level to combat Russian organized crime?

Mr. SEIDEL. I think the level of cooperation between the Federal law enforcement agencies and the State and other local agencies must continue. Really, that is the only effective way to address the crimes that these groups commit and the crimes that are causing the most harm to the people of New York and actually every other place where these groups operate.

Chairman GILMAN. Thank you.

Dr. Shelley, what is the basis for your statement that the Russian organized crime groups engage in smuggling of nuclear and strategic materials and weapons?

Ms. SHELLEY. My basis for this is my knowledge from Russian colleagues that I work with who have access to materials or information that is not available to us.

Chairman GILMAN. Have you passed that on to any of our police agencies?

Ms. SHELLEY. I have not passed it on. I am working on ways that we can make this material available and then not compromise Russians who have access to this information.

Chairman GILMAN. I think it would be important if you do have information to pass that on to the appropriate agencies.

Our committee staff has encountered some fear in the media covering Russian organized crime. How pervasive is that with regard to the Western media?

Ms. SHELLEY. I think that the problem of intimidation of Western media has not been in terms of individual journalists at all, but

has been in terms of using legal suits against newspapers. And because Russian organized groups have tremendous financial resources at their disposal, there are other cases, other than the one that I cited in my testimony, that exist, and this is something that has been used, and it is not a unique case.

Chairman GILMAN. Is there any evidence of Russian organized crime stealing or ripping off U.S. privatization assistance?

Ms. SHELLEY. I cannot give specific examples of this myself. I have heard of other people being concerned about this. But I think there are general problems of how privatization is occurring in the absence of safeguards in the privatization initiatives. Efforts to promote an equitable distribution of property to citizens and through auctions, through voucher systems, and others, are not being properly addressed by some of our assistance efforts.

Chairman GILMAN. Thank you. I want to thank your panelists.

Mr. Wynn.

Mr. WYNN. Thank you, Mr. Chairman.

Again, I would like to thank the panelists for appearing.

There seems to be some degree of consensus that the infiltration by organized crime into the political organizations and institutions in Russia is a problem.

If you were to say on a percentage basis, what percentage or to what degree is the parliament or Duma, excuse me, of the Soviet Union, and the upper house as well, penetrated by organized crime? What percentage of the membership?

Ms. SHELLEY. The Russians estimate that the penetration level at the level of the Federation Council, which is the upper house, is much higher than in the lower house. This was certainly evidenced through effort to pass a new criminal law which would make many of the activities of organized criminals illegal. The existing criminal law only outlaws crimes connected to the socialist economist. And the new criminal law that went forth was not passed by the upper house because many of the activities that they are involved in could then be prosecuted. The lower house overrode the veto of the upper house on this legislation. So the corruption is much higher at the level of the Federation Council.

But people who are very knowledgeable of this subject—I cannot give you a figure that it is 10 percent, or 20 percent. But on crucial committees involved in developing legislation there are members of organized crime present in these committees.

Mr. WYNN. I am not trying to pin you down, but you are not willing to venture a percentage?

Ms. SHELLEY. No, but I would say that it is a serious problem.

Mr. WYNN. It is a serious problem, OK.

Are there prominent government officials with whom we negotiate through our State Department involved in organized crime in the Soviet Union, at the sub-Cabinet level?

Ms. SHELLEY. According to Russian sources, there are serious problems at all levels of the Russian leadership at the moment, and problems of corruption.

Mr. WYNN. OK. You were talking about bank ownership, and in the previous panel I quoted figures from, I guess, it was from the New York Magazine, saying 50 to 80 percent of the ownership of banks are tainted in the Soviet Union.

Would you venture a guess on that or an estimation?

Ms. SHELLEY. From the sources that I am reading from the Ministry of Interior, and from discussions with individuals involved in the banking sector, they are estimating that a very high percentage, not 80 percent, but at least half of the banks have strong associations with organized crime.

Mr. WYNN. I mentioned to the other panel that I thought that there may in fact be American businessmen who are embracing this criminal culture as a means of gaining access to capital.

Is there any evidence that U.S. businesses are knowingly engaging with Russian financial institutions controlled by organized crime?

Ms. SHELLEY. I have not heard of this problem with any particular American businesses. I have heard more of the problem of the difficulties of investment or the difficulties of functioning in this environment. Though certainly there are cases of businessmen from other countries who are certainly profiting and benefiting from this very open banking environment.

Mr. WYNN. OK. You said that the situation in Russia with respect to organized crime is very different because of the large number of law enforcement, military and security personnel who are involved and their education level.

How is this different from corruption allegedly existing in Italy or in Colombia?

Ms. SHELLEY. In Italy, organized crime is based on traditional family and hierarchical structures. As was mentioned before, Russian organized crime, and as Mr. Seidel has said, is more fluid, so that you can have confederation and associations of different elements. Therefore you have Russian organized crime groups forming privatized protection services, and then setting up allegiances with different other organized crime groups.

So the lack of rigidity and hierarchy in their structures allows for this, which you do not see so much in other cases.

Mr. WYNN. OK, the same applies for other areas of organized crime such as narcotics or prostitution, that sort of thing?

Ms. SHELLEY. Yes.

Mr. WYNN. Same fluid characteristics.

I have no further questions, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Wynn.

Mr. Hyde.

Mr. HYDE. Thank you, Mr. Chairman.

I want to congratulate both of you for most informative testimony. I know our Administration and any Administration in an effort to lift the former Soviet Union out of the economic pits and to help the transferral to a market system would encourage American investment. That is something you need in any country that is developing.

But the information that is available to us, and I ask for your, Dr. Shelley particularly, your conformation or otherwise—is that there is not a safe bank in the Soviet Union, and investors are very loathe to transact business when there is no banking system that you can trust.

Is that true?

Ms. SHELLEY. Yes, and that is a large part of the reason that so much capital flight has occurred, because even honest businesses are hesitant to keep their capital in Russia, because of the instability of their investments.

Mr. HYDE. Well, things are not ever going to get better unless that is reversed, and that will not be reversed except from the top on down. And everything is shaky at the top, and some of the people—I am being as generic as I can—are part of the problem of crime, involved in it. And so it is a pretty dismal prospect, especially with the nuclear capability that exists over there. And I just do not know that our country is taking, or the world is taking it that seriously.

I got the impression that this is solvable and we can handle it. But from the testimony of our two leading intelligence sources, Director Freeh and Dr. Deutch, I am not that optimistic. That is just my own comment, and am gathering my conclusions from what I have heard from both of you.

Mr. Seidel, these immigrants—do we know if they are criminals or do they become criminals after they come in this country?

Mr. SEIDEL. I think it is a mix. Some of them were obviously criminals before they came here. Some of them became criminals when they were here.

Mr. HYDE. Do we have any luck at deporting them?

Mr. SEIDEL. Well, I think that—

Mr. HYDE. Do we need new laws? We need some new laws that affect immigrants who come in and commit crimes. I think we are working on that.

Mr. SEIDEL. I think probably what would need to be done would be to enforce the laws that we have. I think the laws we have are pretty good. It is just that you are sometimes dealing with an overwhelmed system.

Mr. HYDE. Well, when that system gets overwhelming and overwhelms the law and order we have in the country, everything is lost. We are back in the jungle, are we not? Every man for himself, carry a gun?

Mr. SEIDEL. I think it would be very wise to emphasize the enforcement of the existing laws that we have, particularly with regard to Soviet immigrant criminals.

Mr. HYDE. Are the Governor and the mayor doing everything they can do? That is a dirty question, is it not? Of course they are. OK, do not answer.

Mr. SEIDEL. Thank you very much, Mr. Hyde.

Mr. HYDE. Well, I am not sure we are doing everything we can do either, but I am sure this problem is much more serious than most people think, and thanks to you for alerting us and hopefully some measure of the public, because I think this is very serious. And I thank you.

Mr. SEIDEL. Thank you.

Mr. HYDE. Thank you, Mr. Chairman.

Chairman GILMAN. Thank you, Mr. Hyde.

Mr. Royce.

Mr. ROYCE. Thank you.

Mr. Seidel, I would just ask you where do we learn the skills and what recommendations do you have for State and local enforcement?

Attorney General Dan Lungren and I have shared with you that he now reports the same types of occurrences that you have indicated are going on in New York.

What more can States like California do to keep these groups from stealing tax revenues such as gasoline taxes?

Mr. SEIDEL. Yes, I have read the California report, and it is remarkably, I think, similar to the situation that we seem to have in New York.

The types of crimes we are talking about that are most serious and most harmful are the types involving frauds and financial chicanery, counterfeiting. These types of cases are very labor-intensive. They require sophisticated teams of investigators and prosecutors who will work on them for oftentimes years before you get indictments and convictions.

Clearly, it is a matter of allocating the resources to do this, and I really cannot emphasize enough how much of this effort needs to be a cooperative effort between Federal and State law enforcement agents.

Many of the laws that are being violated are both violations of both Federal and State laws. Some of them are violations of only Federal laws. But the expertise needed to combat these sophisticated financial crimes requires the dedication of teams of investigators and prosecutors, and I think really that is where you have got to put your effort if you are going to be successful in the investigation and prosecution of these groups.

Mr. ROYCE. Could I ask, where is the data base that local law enforcement would turn to if they were going to follow up and attempt to do that as a team?

Mr. SEIDEL. Well, I can speak for New York to a certain extent. I know that the Organized Crime Task Force has a significant data base of Russians who are connected to or involved in criminal activity. The New York City Police Department is putting together an intelligence base, comprised of people that should be and have been looked at. I know the various Federal agencies, for instance, the FBI certainly has an intelligence base. But that, again, is something that needs to be developed, and it needs to be, when appropriate, shared in the investigation and prosecution of these groups.

Mr. ROYCE. Thank you.

I would ask Dr. Shelley, Dr. Shelley, you said that the citizens of the former Soviet States have acquired almost no resources from the privatization which has occurred there, and that the preponderance of property has been transferred to organized crime groups and former members of the party elite and corrupt members of the law enforcement and security apparatus.

I would ask, do you believe that our government has been vigilant in ensuring that our U.S. privatization aid has not been ripped off by Russian organized crime figures?

Ms. SHELLEY. I am not greatly concerned that the aid itself is being ripped off. The problem is more of how we are assisting privatization efforts, and what we are not doing in those efforts to prevent corruption in the banking sector, corruption in child care

sector, corruption in the auction process, voucher process in whatever we are doing. Because the environment in which the privatization effort, and which so much of our resources have gone is so criminalized that it is just ripe for exploitation. Unless you put safeguards in at every stage to watch out for the corruption, then you are going to be having a major exploitation of the privatization process.

It is not so much that our funds are misused, but our assistance is not assisting the broad base of the population that needs to receive property. And this is a concern not just of Americans, but of Russians as well. There need to be criminal safeguards placed on redistribution of property.

In Russia, much of the property redistribution has already occurred. But further privatizations are going to go on in the coal industry. There is a major effort on privatization that is about to be undertaken in Ukraine, and at this point I do not believe that there are enough legal safeguards placed on the privatization effort that we are facilitating.

Not that we can prevent problems of corruption, they are endemic in this society as we have talked about. But we should be ensuring that we are not facilitating further corruption or disenfranchising the citizenry from receiving property that they need to function in a democratic market economy.

Mr. ROYCE. Thank you, Dr. Shelley.

Thank you, Mr. Chairman.

Chairman GILMAN. Any further questions, Mr. Hyde and Mr. Royce?

Well, again, I want to thank our panelists for being here, Dr. Shelley, Mr. Seidel. We wish you well in all of your efforts. We thank you for providing the information to our committee.

Our committee stands adjourned.

[Whereupon, at 12:30 p.m., the committee was adjourned.]



# APPENDIX

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HOUSE OF REPRESENTATIVES  
Committee on International Relations  
"Threat of Russian Organized Crime"

John Deutch  
Director of Central Intelligence

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I am pleased to be here today to discuss the threat of Russian organized crime to US national security interests. The activities of Russian criminal organizations are of interest to the Intelligence Community for two reasons:

- First, extensive crime and corruption undermine the political and economic stability of Russia and threaten its continued progress towards democracy and a market economy. The same is true in other countries of the former Soviet Union.
- Second, Russia's criminal groups reach across international borders, including our own. These groups participate in international drug trafficking and cooperate with other criminal organizations, including Colombian drug mafias. Russian criminal groups have the potential to support terrorism and contribute to the proliferation of materials, technology, and weapons of mass destruction.

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### Organized Crime Threat to Russia

We believe that organized crime and corruption pose an increasing threat to political and economic reform in Russia. Many members of the elite that influences economic and political decision making in Russia have connections to the criminal world, or are directly involved in questionable or illegal activities.

The Russian people see crime and corruption as severe and growing threats and many blame democratic and free market institutions for the breakdown of law and order. The link between corrupt officials and the criminal element makes it difficult for the Russian Government to meet expectations for social justice, equal opportunity, and higher living standards. In sum, the criminal presence undermines popular confidence in the integrity of political processes and institutions.

### Penetration of the Economy

Criminal groups have penetrated and thrived in the post-Soviet economy. I want to make it clear, however, that this is not a problem that arose out of greater freedom and the introduction of market economics. Its basis is in the pervasive corruption of the Soviet era. Under the central planning system, distorted prices made black market

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activity profitable. Through bribery and other corrupt practices, the elite regularly profited from their influence and superior access to goods and services.

The rapid collapse of the Soviet system and central planning offered opportunities for this underlying corruption to bloom, for criminals to reap much higher profits, and for crime to become much more visible to the average citizen. Many members of the former Soviet elite were in a good position, for example to illegally profit from the large transfer of wealth to the private sector. The opening of borders allowed criminals to transfer capital overseas, increasing the opportunities for profit and diverting revenue from the Russian economy and the Russian government. Continued heavy involvement of the government in the economy offers new opportunities for official corruption, particularly since officials often go unpaid for long periods and must find a source of income.

No state can develop a rule-of-law society over night. The Soviet government ruled by corruption and coercion. The government of Russia is just beginning to develop the legal infrastructure necessary to regulate private economic activity. There are currently no effective laws governing the transfer of property, for example. Law enforcement agencies continue to be understaffed, underfunded, and plagued by corruption. Moreover, we believe that criminal groups constitute a

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political force that actively opposes the strengthening of laws and institutions that could fight crime effectively.

The Russian government offers sobering statistics on criminal penetration of the economy:

- Yel'tsin administration officials claim that some 70 to 80 percent of private businesses are paying extortion fees worth 10 to 20 percent of total retail sales;
- The Ministry of Internal Affairs estimates that criminal groups and businesses export approximately \$1.5 billion a month to Western bank accounts.

Criminal groups have made substantial inroads into lucrative economic sectors, including energy, metallurgy, construction, banking and finance, retail trade, transportation, liquor production and distribution, and automobile distribution.

*The Role of Corruption*

Widespread corruption at many levels of government in Russia feeds the rapid growth of organized crime.

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- Corrupt officials provide criminal front companies with export licenses, customs exemptions, and government contracts. Officials of the law enforcement and security services provide criminals with protection from arrest and prosecution.
- Officials may influence the privatization process in ways that would constitute a conflict of interest in the West, but do not in Russia because pertinent laws and regulations do not yet exist. This influence sometimes crosses the boundary into outright criminal conduct.
- Many government officials run businesses on the side that are involved in questionable or illicit activities that bring them into contact with criminal groups.

*Implications for Stability*

Crime and corruption bode poorly for Russia's overall development and undermine a political system that the West supports and aids through official assistance and investment. Moreover, the popular perception that democratic and free market institutions are responsible for the breakdown of law and order in Russia fuels support for hard-line politicians.

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Violence associated with crime is an increasingly conspicuous part of the Russian landscape. The Russian murder rate has roughly doubled over the last three years, to a level more than twice that of the United States. A recent incident in St. Petersburg illustrates the problem – a visiting Scottish businessman drinking coffee in a five-star hotel was slain by bullets intended for a powerful local crime leader.

Organized crime and official corruption are stunting and undermining the process of political and economic reform in other states of the former Soviet Union, much as they are in Russia. In the Caucasus and some other areas, for example, criminal groups have gained control over scarce resources such as fuel and select food products.

*Implications for US and Western Business Interests*

Pervasive crime and corruption makes it difficult for US and Western firms to do business honestly in the former Soviet Union. Criminal groups and disreputable businessmen use political connections, payoffs, and intimidation to secure lucrative deals at the expense of free and fair competition. This climate discourages much needed foreign investment in the Russian economy.

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### Overseas Threat

The international activities of Russian criminal groups threaten US national security interests. Here I would note that some of the larger Russian criminal groups actually base their operations in more comfortable venues, like Vienna and Budapest.

### Arms and Drug Trafficking

Russian organized crime groups are closely linked to the trafficking of conventional arms. These efforts exploit corruption, poor living conditions, and chronic late wages in the Russian military to gain access to weapons and other stocks. Theft and illegal sales of these items have become routine. Military officers purchase weapons and smuggle contraband, including weapons and narcotics, via military transport, which cannot be searched by Russian law enforcement officials.

Russian organized crime groups in search of higher profits are turning increasingly to narcotics trafficking. They are facilitating movement along new drug transit routes from major heroin producing areas in Asia that cross the former Soviet Union. These new routes

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avoid tighter scrutiny by western European law enforcement agencies at ports of entry along more traditional transit routes.

Russian criminal organizations have also become involved in the cocaine trade to take advantage of a growing market in Russia and elsewhere.

International Reach

Russian crime groups have spread rapidly beyond the borders of the former Soviet Union; they now have a presence in up to 50 different countries. Their presence is most pronounced in eastern and central Europe, where they are involved in narcotics, weapons trafficking, car theft, and money laundering. The more sophisticated groups have ties to other foreign criminal organizations, particularly for purposes of narcotics and arms smuggling.

Many of the auto theft rings active in western Europe today were established by the Russian military during the last years of its presence in Eastern Germany. German officials have described organized crime emanating from the East as one of Germany's most serious problems.

Agreements between Russian and Colombian cocaine traffickers have also been reported. Indeed, there have been numerous cocaine seizures in Russia, including 1.2 metric tons of cocaine seized by



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Russian authorities on a truck traveling from Finland to St. Petersburg in February 1993.

We will continue to closely monitor increasing cooperation between Russian crime groups and other international criminal organizations.

Concerns about Nuclear Smuggling

As I have testified before, we have no data indicating that a nuclear weapon or a significant quantity of fissile material has ever been stolen from Russia. We have no evidence that organized crime has planned or participated in the theft of nuclear weapons or fissile materials or come into the possession of a nuclear weapon. Nonetheless, we believe that there is a potential for criminal groups to become involved in the theft or diversion of fissile materials and we remain alert to this possibility.

Links to Terrorism

We also have no information that Russian criminal organizations are cooperating with terrorist groups or rogue states. Of course, we cannot rule out cooperation between Russian criminal groups and terrorists in the future. Russian criminal groups have the capability to

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broker or carry out sales of weapons or other material of interest to terrorist groups and rogue states because of their access to corrupt military personnel, extensive smuggling networks, international connections, and the prospects of significant profits.

*The Role of Intelligence*

The Intelligence Community is enhancing collection and analysis programs in order to provide national level policymakers and the US law enforcement community with the best information and assessments on the threats posed by Russian organized crime to the United States and our interests overseas.

We consider the FBI to be a major customer for this intelligence. The CIA and FBI are in regular contact on this, and other international organized crime issues, and work cooperatively. The FBI's primary concern is how Russian criminal activity violates US laws and directly affects the United States and US citizens. The Intelligence Community's primary concern is how Russian criminal activity is evolving and its impact on the political and economic stability of Russia and other countries vulnerable to organized crime.

Since becoming Director of Central Intelligence, one of my priorities has been to increase collection and analytical efforts that support the Law Enforcement Community. We provide information

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and assessments on the organizational structure, international networks, and illicit activities of Russian criminal groups to assist the Law Enforcement Community to carry out its mission.

We have devised mechanisms to ensure that programs are complementary rather than competitive. Besides sharing information on Russian criminal targets, Intelligence Community agencies such as the CIA and the National Security Agency have exchanged personnel at working and senior levels with the FBI to enhance each agency's understanding of the other's mission, to take advantage of each agency's substantive expertise, and to encourage cooperation.

The DCI Center for Crime and Narcotics Center has been effective in targeting drug trafficking and addressing the issue of Russian organized crime. This DCI Center and the CIA provide focused multidisciplinary analysis on the leadership, infrastructure, networks, methods of operations, and vulnerabilities of the targeted Russian groups.

We have made substantial progress on tracking selected Russian criminal targets. Our information indicates these groups are involved in a range of illicit activities, including arms and currency smuggling, narcotics trafficking, and money laundering. The scope of their activities extends across the territories of the former Soviet Union, throughout Europe and the Middle East, and into Canada and the United States.

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We shall continue to address this very serious transnational threat.

**STATEMENT**  
**OF**  
**LOUIS J. FREEH**  
**DIRECTOR**  
**FEDERAL BUREAU OF INVESTIGATION**  
**BEFORE THE**  
**HOUSE COMMITTEE ON INTERNATIONAL**  
**RELATIONS**  
  
**HEARING ON**  
**RUSSIAN ORGANIZED CRIME**  
**APRIL 30, 1996**

GRAVE CRIME IS NO LONGER BOUND BY THE CONSTRAINTS OF BORDERS. SUCH OFFENSES AS TERRORISM, NUCLEAR SMUGGLING, ORGANIZED CRIME, COMPUTER CRIME, AND DRUG TRAFFICKING CAN SPILL OVER FROM OTHER COUNTRIES INTO THE UNITED STATES. REGARDLESS OF ORIGIN, THESE AND OTHER OVERSEAS CRIMES IMPACT DIRECTLY ON OUR CITIZENS AND OUR ECONOMY.

WE HAVE DEVELOPED A VARIETY OF ANTI-CRIME EFFORTS BOTH HERE AND ABROAD TO COMBAT THESE DANGEROUS THREATS. THIS EFFORT HAS BEEN UNDERTAKEN WITH THE SUPPORT OF THE PRESIDENT, ATTORNEY GENERAL JANET RENO, AND SECRETARY WARREN CHRISTOPHER. ONE OF THE MOST EFFECTIVE WAYS TO FIGHT INTERNATIONAL CRIME IS BY BUILDING COP-TO-COP BRIDGES BETWEEN AMERICAN LAW ENFORCEMENT AND OUR OVERSEAS COUNTERPARTS. WITHOUT THESE RELATIONSHIPS, THERE CANNOT BE THE COMMONALITY OF PURPOSE AND OPEN COMMUNICATION REQUIRED FOR SUCCESS. MORE AND MORE OF THESE BRIDGES ARE BEING BUILT, AND SUCCESSES ARE FLOWING FROM THEM.

WE ARE USING A NUMBER OF APPROACHES TO DEVELOP COOPERATIVE LAW ENFORCEMENT PROGRAMS WITH OTHER COUNTRIES. FOR EXAMPLE, OUR LEGAL ATTACHE PROGRAM WORKS CLOSELY WITH A LARGE NUMBER OF FOREIGN POLICE FORCES. NOT ONLY DO THEY COOPERATE ON SPECIFIC CASES, BUT OUR LEGAL ATTACHES -- WHO ARE HIGHLY-SKILLED SENIOR FBI AGENTS -- ALSO FORM A SORT OF DISTANT EARLY WARNING SYSTEM TO ALERT US TO NEW AND EMERGING CRIME THREATS.

ANOTHER VERY POWERFUL TOOL IS TRAINING: THE FBI PLACES A HIGH PRIORITY ON ASSISTING OUR FOREIGN LAW ENFORCEMENT COUNTERPARTS THROUGH TRAINING COURSES HERE AND ABROAD. AND JUST A YEAR AGO, WE TOOK A MAJOR COOPERATIVE STEP WITH OTHER FEDERAL AGENCIES AND OTHER FOREIGN NATIONS WITH THE CREATION OF THE INTERNATIONAL LAW ENFORCEMENT ACADEMY IN BUDAPEST.

THESE AND OTHER PROGRAMS COMBINE TO HELP GIVE THE FBI THE CRITICAL FOUNDATION NEEDED TO EFFECTIVELY COMBAT INTERNATIONAL CRIME.

THERE IS ALSO ANOTHER VITAL FACTOR: I WANT TO THANK THIS COMMITTEE FOR ITS CRUCIAL RECOGNITION OF THE IMPORTANCE OF THESE ISSUES AND FOR YOUR SUPPORT IN MEETING THE CRIME CHALLENGES FROM ABROAD. THIS IS A RARE OPPORTUNITY TO EXTEND THE RULE OF LAW WHILE MOBILIZING LAW ENFORCEMENT TO MEET THE EXPLOSION OF INTERNATIONAL CRIME AGAINST AMERICA. I AM EXCEEDINGLY GRATEFUL FOR THE SUPPORT CONGRESS HAS GIVEN US AND PLEDGE TO CONTINUE TO WORK WITH CONGRESS AS WE DEVELOP A STRONGER GLOBAL NETWORK OF EFFECTIVE LAW ENFORCEMENT. YOUR SUPPORT OF LAW ENFORCEMENT TRAINING AT THE DEPARTMENT OF STATE HAS BEEN CRITICAL TO THE SUCCESS OF OUR PROGRAMS.

#### THE INTERNATIONAL CRIME PROBLEM

THE POLITICAL, SOCIAL, AND ECONOMIC CHANGES OCCURRING IN EASTERN EUROPE AND IN THE FORMER SOVIET REPUBLICS HAVE PROVIDED SIGNIFICANT, UNINTENDED OPPORTUNITIES FOR ORGANIZED CRIME GROUPS AND CRIMINAL ENTERPRISES IN THESE COUNTRIES TO EXPAND INTERNATIONALLY. EVIDENCE THAT ORGANIZED CRIME ACTIVITY FROM THESE AREAS IS EXPANDING AND WILL CONTINUE TO EXPAND TO THE UNITED STATES IS WELL-DOCUMENTED.

THESE CRIMINAL ENTERPRISES ARE NOT A NEW PHENOMENON TO RUSSIA. THEY EXISTED UNDER COMMUNISM. APPROPRIATE LEGAL TOOLS WERE NOT CREATED TO CONTROL ORGANIZED CRIME AND CORRUPTION ACTIVITIES. WHEN COMMUNISM DECLINED IN THE SOVIET UNION, THE ORGANIZED CRIME GROUPS QUICKLY EXPANDED THEIR INFLUENCE IN THE EMERGING MOVE TOWARD CAPITALISM, AGAIN BECAUSE SUFFICIENT CONSTRAINTS AND LAW ENFORCEMENT TOOLS WERE NOT PRESENT.

THE FBI HAS MANY YEARS OF SUCCESSFUL INVESTIGATIVE AND PROSECUTORIAL EXPERIENCE IN THE BATTLE WITH LA COSA NOSTRA AND OTHER ORGANIZED CRIME GROUPS HERE IN THE UNITED STATES. WE VIEW ORGANIZED CRIME AS A CONTINUING CRIMINAL CONSPIRACY HAVING A FIRM ORGANIZATIONAL STRUCTURE, A CONSPIRACY FED BY FEAR AND CORRUPTION. THIS DEFINITION CAN ALSO BE APPLIED TO THE ORGANIZED CRIME THREAT FACING RUSSIA AND MANY OTHER COUNTRIES. MEMBERS OF A TYPICAL RUSSIAN ORGANIZED CRIME GROUP ARE FOUND AT EVERY LEVEL OF SOCIETY. ORGANIZED CRIME ACTIVITY IN RUSSIA INCLUDES MONETARY SPECULATION, MANIPULATION OF THE BANKING SYSTEM, AND EMBEZZLEMENT OF STATE PROPERTY, AS WELL AS CONTRACT MURDER, EXTORTION, DRUG TRAFFICKING, PROSTITUTION, PROTECTION RACKETS, AND INFILTRATION OF LEGITIMATE BUSINESS ACTIVITY.

TO MAKE MATTERS WORSE, A NUMBER OF RUSSIAN/EURASIAN ORGANIZED CRIME GROUPS AND CRIMINAL ENTERPRISES PRESENTLY OPERATE IN THE U.S.

MANY OF THESE CRIMINAL ENTERPRISES ACTIVE IN THE U.S. HAVE DEMONSTRATED A WILLINGNESS TO WORK IN CLOSE CONCERT WITH OTHER NON-RUSSIAN/NON-EURASIAN ORGANIZED CRIME GROUPS.

THE UNITED STATES AND RUSSIA FULLY REALIZE THE NEED FOR JOINT COOPERATION AGAINST CRIMES THAT HARM BOTH COUNTRIES -- AND OTHER PARTS OF THE WORLD AS WELL. THAT IS THE REASON THE FBI HAS OPENED A LEGAL ATTACHE OFFICE IN MOSCOW TO WORK CLOSELY WITH RUSSIAN POLICE AGAINST A VARIETY OF COSTLY CRIMES. FROM JULY, 1994 TO THE PRESENT, THE NUMBER OF CASES WORKED BY THE FBI AGENTS IN MOSCOW HAS INCREASED FROM 20 TO OVER 200.

IF CONGRESS AGREES, AND WITH THE COOPERATION OF THE DEPARTMENT OF STATE AND THE DEPARTMENT OF JUSTICE, WE HOPE TO EXPAND OUR NETWORK OF LEGAL ATTACHE OFFICES AROUND THE WORLD. THE GLOBAL NEEDS ARE GREAT -- AND MANY NATIONS, INCLUDING RUSSIA, ARE WORKING DILIGENTLY TO FIGHT CRIME THAT HURTS THE LAW-ABIDING EVERYWHERE.

ONE OF THE SPECIFIC ISSUES OF GREAT CONCERN TO THE FBI AND TO RUSSIAN AUTHORITIES IS THE THEFT AND DIVERSION OF NUCLEAR MATERIALS -- AND THE POTENTIAL THEFT OF NUCLEAR WEAPONS BY TERRORISTS OR ROGUE NATIONS.

OVER THE PAST YEAR, LEGITIMATE CONCERNS HAVE BEEN RAISED BY THE APPARENT VULNERABILITY OF RADIOACTIVE MATERIALS TO THEFT OR DIVERSION IN SEVERAL AREAS OF EASTERN EUROPE AND EURASIA. THE SEIZURE OF SIGNIFICANT AMOUNTS OF CESIUM IN LITHUANIA AND THE SEIZURE OF URANIUM IN THE CZECH REPUBLIC ARE EXAMPLES OF THE CONCERNS IN THE INTERNATIONAL COMMUNITY REGARDING THE THREAT OF NUCLEAR PROLIFERATION.

THE RECENT INCREASES IN RADIOLOGICAL-NUCLEAR MATERIAL INCIDENTS THROUGHOUT THE WORLD HAVE CAUSED THE INTERNATIONAL LAW

ENFORCEMENT COMMUNITY TO COMMUNICATE BETTER WITH EACH OTHER.

ALTHOUGH THERE HAVE BEEN NO SEIZURES OF NUCLEAR MATERIAL IN THE UNITED STATES, TWO RECENT CASES INVOLVED CONSPIRACIES TO IMPORT RADIOACTIVE MATERIAL INTO THIS COUNTRY. IN NEW YORK, THE U.S. CUSTOMS SERVICE ARRESTED FOREIGN NATIONALS ATTEMPTING TO NEGOTIATE THE SALE OF RADIOACTIVE ZIRCONIUM METAL INTO THE U.S. ULTIMATELY, 45 TONS OF THE MATERIAL WERE SEIZED IN CYPRUS, ENROUTE TO THE U.S. IN THE OTHER CASE, THE CANADIAN CUSTOMS SERVICE INTERCEPTED RADIOACTIVE ISOTOPES ORIGINATING IN RUSSIA BEING SMUGGLED INTO THE U.S. THROUGH CANADA. THE FBI ASSISTED THE CANADIAN LAW ENFORCEMENT AGENCIES IN THEIR INVESTIGATION.

WHILE SOME CRIME PROBLEMS FLOW FROM EAST TO WEST, OTHERS FLOW BACK FROM WEST TO EAST. ONE OF THE MOST DIFFICULT LAW ENFORCEMENT PROBLEMS FACING MANY OF THE NEWLY-FREED AND EASTERN EUROPEAN NATIONS IS DRUG TRAFFICKING. THE SCOURGE OF DRUG TRAFFICKING HAS HAD A DEVASTATING IMPACT ON THE ENTIRE GLOBAL COMMUNITY. RUSSIA, THE NEWLY INDEPENDENT STATES AND EASTERN EUROPE ARE CERTAINLY NOT IMMUNE TO THIS EPIDEMIC. CRIMINAL ORGANIZATIONS IN THESE EMERGING DEMOCRACIES ARE TAKING ADVANTAGE OF THE RELAXED BORDERS AND IMPROVED TELECOMMUNICATIONS SYSTEMS THAT HAVE EMERGED IN RECENT YEARS TO FACILITATE THEIR ILLEGITIMATE OPERATIONS. THESE COUNTRIES ARE TARGETS OF OPPORTUNITY FOR THE MAJOR DRUG TRAFFICKING ORGANIZATIONS, LIKE THE COLOMBIAN CARTELS, WHICH SEEK TO ESTABLISH NEW AND LUCRATIVE MARKETS.

#### INTERNATIONAL TRAINING

THE FBI'S INTERNATIONAL APPROACH IN COMBATING RUSSIAN AND OTHER INTERNATIONAL ORGANIZED CRIME GROUPS INCLUDES GENERAL AND SPECIALIZED LAW ENFORCEMENT TRAINING FOR FOREIGN LAW ENFORCEMENT AGENCIES. DURING FISCAL YEAR (FY) 1995, THE FBI TRAINED 4,400 FOREIGN LAW ENFORCEMENT PERSONNEL. THIS TRAINING IS PARTICULARLY CRITICAL WITH RESPECT TO THE POLICE AGENCIES OF SOME OF THE NEWLY-EMERGING DEMOCRACIES.

MOST OF THIS TRAINING IS ACCOMPLISHED BY FUNDING GENEROUSLY MADE AVAILABLE BY CONGRESS TO THE DEPARTMENT OF STATE THROUGH THE FREEDOM SUPPORT ACT (FSA) AND SUPPORT FOR EASTERN EUROPEAN DEMOCRACIES (SEED) FUNDING. THE FBI AND THE DEPARTMENT OF STATE, WORKING TOGETHER, ARE ALSO RESPONSIBLE FOR THE INTERNATIONAL LAW ENFORCEMENT TRAINING ACADEMY IN BUDAPEST, WHICH FUNCTIONS AS THE CENTER FOR LAW ENFORCEMENT TRAINING FOR OFFICERS FROM MANY EASTERN EUROPEAN, RUSSIAN AND EURASIAN NATIONS.

THE ACADEMY AT BUDAPEST PROVIDES AN EIGHT-WEEK PROFESSIONAL DEVELOPMENT PROGRAM SIMILAR TO OUR FBI NATIONAL ACADEMY PROGRAM AT QUANTICO. DURING FY 1995, A TOTAL OF THREE CLASSES GRADUATED FROM THE BUDAPEST ACADEMY -- EACH OF 33 MID-LEVEL POLICE OFFICERS. THOSE OFFICERS CAME FROM THE CZECH REPUBLIC, HUNGARY, LATVIA, POLAND, ROMANIA, SLOVAKIA, ESTONIA, AND LITHUANIA.

FOR FY 1996, THE SCHEDULE IS MUCH MORE AGGRESSIVE, CALLING FOR APPROXIMATELY 200 PERSONS TO BE TRAINED FROM THE



FOLLOWING COUNTRIES: ALBANIA, BELARUS, BULGARIA, CROATIA, ESTONIA, HUNGARY, KAZAKHSTAN, KYRGYZSTAN, LATVIA, MACEDONIA, MOLDOVA, POLAND, RUSSIA, SLOVENIA, AND UKRAINE.

WE CAN BE IMMENSELY PROUD OF THE ACADEMY AT BUDAPEST. IT IS A DIRECT OUTGROWTH OF OUR TRIP TO EASTERN EUROPE IN 1994 AND PRESIDENT CLINTON'S DIRECTION TO U.S. GOVERNMENT AGENCIES TO JOIN TOGETHER TO BUILD THE WORLD'S CAPABILITIES IN FIGHTING INTERNATIONAL CRIME. THE ACADEMY REPRESENTS THE COMBINED EFFORTS OF THE DEPARTMENT OF STATE (DOS), THE DEPARTMENT OF JUSTICE (DOJ), THE FBI, THE DRUG ENFORCEMENT ADMINISTRATION (DEA), THE INTERNAL REVENUE SERVICE (IRS), THE UNITED STATES SECRET SERVICE (USSS), THE FEDERAL LAW ENFORCEMENT TRAINING CENTER (FLETC), THE ALCOHOL TOBACCO AND FIREARMS (ATF), AND OTHER AGENCIES AND COUNTRIES. IT IS TRULY A CASE WHERE ALL OF THESE LAW ENFORCEMENT AGENCIES ARE WORKING TOGETHER AS PARTNERS TOWARD A COMMON GOAL. I CANNOT SPEAK HIGHLY ENOUGH ABOUT THE CONTRIBUTIONS ATF, DEA, SECRET SERVICE, IRS AND THE FEDERAL LAW ENFORCEMENT TRAINING CENTER IN THE DEPARTMENT OF TREASURY HAVE MADE IN MAKING THE ACADEMY SUCCEED. THE ACADEMY BRINGS TOGETHER SEASONED INVESTIGATORS AS INSTRUCTORS AND LAW ENFORCEMENT OFFICERS FROM ACROSS EASTERN EUROPE, RUSSIA, AND THE NEWLY INDEPENDENT STATES TO LEARN POLICING UNDER THE RULE OF LAW. I AM ESPECIALLY GRATEFUL TO OUR HOST COUNTRY, HUNGARY.

JUST LAST WEEK, I ALONG WITH MY OTHER COUNTERPARTS FROM THE UNITED STATES WERE HONORED TO ATTEND THE DEDICATION OF THE INTERNATIONAL LAW ENFORCEMENT ACADEMY. WITH THE RECENT COMPLETION OF RENOVATIONS, THE CAPACITY OF THE ACADEMY HAS BEEN EXPANDED. THE DEDICATION WAS AN HISTORIC MOMENT IN INTERNATIONAL LAW ENFORCEMENT.

THE FBI ALSO IS INVOLVED IN FOREIGN POLICE TRAINING IN MANY OTHER VALUABLE WAYS. FOR EXAMPLE, IN FY 1995, THE FBI PERFORMED A TOTAL OF 10 IN-COUNTRY TRAINING NEEDS ASSESSMENTS. IT WORKS THIS WAY: AT THE INVITATION OF THE HOST GOVERNMENT, WE ANALYZE THAT COUNTRY'S POLICE TRAINING NEEDS AND CAPABILITIES. WE THEN MAKE A RECOMMENDATION OF HOW WE BELIEVE WE CAN BEST ASSIST THE HOST COUNTRY'S LAW ENFORCEMENT CAPABILITIES THROUGH SPECIFICALLY TARGETED TRAINING. THE ASSESSMENTS WERE CONDUCTED IN ALBANIA, BELARUS, BULGARIA, ESTONIA, INDIA, KAZAKHSTAN, KYRGYSTAN, LATVIA, LITHUANIA, MOLDOVA, PARAGUAY, PERU, POLAND, ROMANIA, TUNISIA, UKRAINE, AND URUGUAY.

THROUGH THE FBI'S IN-COUNTRY TRAINING PROGRAM, THE FBI CONDUCTS ONE AND TWO-WEEK SCHOOLS IN FOREIGN NATIONS WHICH CONCENTRATE ON POLICE OPERATIONS AND TECHNICAL SKILLS. WE USE SEASONED, SENIOR FBI STREET AGENT INSTRUCTORS WHO USE THEIR EXTENSIVE PRACTICAL EXPERIENCE IN TRAINING OUR FOREIGN COUNTERPARTS IN POLICING UNDER THE RULE OF LAW. THE INSTRUCTORS IN THESE PROGRAMS HAVE AN ESTABLISHED EXPERTISE IN CRIMINAL INVESTIGATIONS, ESPECIALLY ORGANIZED CRIME AND WHITE COLLAR CRIME. THEIR CREDIBILITY IS NOT ONLY ESSENTIAL FOR EFFECTIVE INSTRUCTION BUT ALSO IS VERY EFFECTIVE IN BUILDING THE COP-TO-COP BRIDGES THAT WE SO CRITICALLY NEED.

SINCE THE FIRST OF THE YEAR, WE HAVE TRAINED 212 OFFICERS OF THE MINISTRY OF INTERIOR FOR THE RUSSIAN FEDERATION (MVD) IN SEMINARS HELD IN RUSSIA AND AT THE FBI ACADEMY IN QUANTICO. ALONG WITH THE INSTRUCTION GEARED TO THE INVESTIGATION OF CRIMES, WE HAVE PROVIDED TRAINING IN ETHICS AND INTERNAL POLICE CONTROLS -- THE FIRST TIME THAT THIS HAS EVER BEEN DONE AND AN AREA WHICH IS CRITICAL TO THE SUCCESS OF POLICING UNDER THE RULE OF LAW.

OUR IN-COUNTRY TRAINING PROGRAMS ARE PRIMARILY FUNDED THROUGH THE FSA AND SEED FUNDS WE RECEIVE FROM THE DEPARTMENT OF STATE. THE FBI, ALONG WITH OTHER LAW ENFORCEMENT AGENCIES, SUBMIT PROPOSED INTERNATIONAL TRAINING PLANS TO THE DEPARTMENT OF STATE AT THE BEGINNING OF THE FISCAL YEAR. DEPENDING ON THE FUNDING THAT IS AVAILABLE FOR LAW ENFORCEMENT TRAINING, THE DEPARTMENT OF STATE THEN DETERMINES THE FUNDING AMOUNTS FOR EACH AGENCY.

DURING THE PAST TWO YEARS, THE FBI HAS RECEIVED \$8.3 MILLION OF THESE FUNDS FOR OUR TRAINING INITIATIVE. WE HAVE BEEN VERY PLEASED WITH THE SUPPORT WE HAVE RECEIVED FROM THE DEPARTMENT OF STATE -- ALL THE TRAINING WE HAVE PROPOSED HAS BEEN FUNDED. IN ADDITION, THE FBI HAS USED \$300,000 OF ITS APPROPRIATED FUNDING TO PROVIDE LIMITED TRAINING TO LAW ENFORCEMENT IN OTHER COUNTRIES.

IN FY 1995, THE FBI PROVIDED FSA AND SEED SUPPORTED TRAINING SEMINARS TO OVER 1,800 LAW ENFORCEMENT OFFICERS FROM HUNGARY, POLAND, SLOVAKIA, CZECH REPUBLIC, ESTONIA, LATVIA, LITHUANIA, UKRAINE, RUSSIA, ROMANIA, AND MOLDOVA. IN FY 1996, WE WILL EXPAND OUR TRAINING INTO BELARUS, SLOVENIA, KAZAKHSTAN, KYRGYSTAN, BULGARIA, AND ALBANIA. THE TRAINING PROVIDED IS TAILORED TO MEET THE NEEDS OF THE PARTICIPANTS. TOPICS ADDRESSED INCLUDE BANK ROBBERY, DRUG TRAFFICKING, KIDNAPPING, FINANCIAL CRIMES, WHITE-COLLAR CRIME, ORGANIZED CRIME AND TERRORISM. JUST RECENTLY, FOR EXAMPLE, WE CONDUCTED A WHITE-COLLAR CRIME AND CORRUPTION SEMINAR IN KAZAKHSTAN. ALL OF THIS TRAINING HAS A DIRECT IMPACT ON UNITED STATES PERSONS AND CORPORATIONS WHO HAVE FLOCKED TO THESE COUNTRIES IN SEARCH OF BUSINESS OPPORTUNITIES.

IN ADDITION TO THE TRAINING FUNDED BY THE FSA AND SEED ACTS, THE FBI TRAINED AN ADDITIONAL 2,600 STUDENTS THROUGH OUR OTHER PROGRAMS. THESE PROGRAMS INCLUDED THE CRIME-SPECIFIC INVESTIGATIVE SEMINARS, TARGETED CRIME SCENE ANALYSIS TRAINING AS PROVIDED BY OUR FORENSIC EXPERTS, AND MANAGEMENT TRAINING FOR MID-LEVEL AND EXECUTIVE LAW ENFORCEMENT OFFICERS. LAST YEAR, 110 INTERNATIONAL OFFICERS ALSO PARTICIPATED IN THE FBI NATIONAL ACADEMY PROGRAM AT QUANTICO. THEIR PARTICIPATION ALLOWS AN ADDITIONAL "BRIDGE" TO BE BUILT FROM OUR STATE AND LOCAL OFFICERS TO THOSE OVERSEAS.

ONE BENEFICIAL PART OF THIS TRAINING IS THE OPPORTUNITY IT PROVIDES THE TRAINERS AND THE TRAINEES TO INTERACT ABOUT SPECIFIC CRIME PROBLEMS BEING ENCOUNTERED IN THEIR COUNTRIES, HOW TO ADDRESS THE PROBLEM, SHARE EXPERIENCES LEARNED IN THE PROCESS AND FORGE NEW RELATIONSHIPS FOR FUTURE COOPERATION ON MATTERS OF MUTUAL INTEREST AND CONCERN. IN SOME OF OUR INVESTIGATIONS, THE

FBI HAS BENEFITTED BY BRINGING ACTUAL CASE INVESTIGATORS TO THE U.S. FROM OTHER NATIONS TO WORK SIDE BY SIDE WITH FBI AGENTS. THIS IS A CONTINUATION OF THE TRAINING WE HAVE PROVIDED AND ALLOWS "HANDS-ON" APPLICATION AND OBSERVATION OF INVESTIGATIVE TECHNIQUES SUCCESSFULLY EMPLOYED BY THE FBI IN OUR ORGANIZED CRIME INVESTIGATIONS.

AS EXAMPLES OF THE SUCCESSES THE FBI HAS SEEN FROM CONTACTS AND LIAISON ESTABLISHED AS A RESULT OF THIS TRAINING, A CENTRAL EUROPEAN WORKING GROUP ON INTERNATIONAL ORGANIZED CRIME AND A SIX-NATION WORKING GROUP ON INTERNATIONAL ORGANIZED CRIME WERE ESTABLISHED THIS PAST YEAR. IN ADDITION TO THE FBI, THEY BRING TOGETHER LAW ENFORCEMENT AGENCIES FROM EASTERN AND WESTERN EUROPE AND CANADA TO DISCUSS SPECIFIC ORGANIZED CRIME THREATS COMMON TO ALL COUNTRIES REPRESENTED. LINES OF COMMUNICATION AND WORKING RELATIONSHIPS ARE NOW ESTABLISHED AND PRACTICAL LAW ENFORCEMENT APPROACHES TO THE ORGANIZED CRIME PROBLEMS OF THE REGIONS ARE PLANNED. AS A DIRECT RESULT OF THIS INITIATIVE, SEVERAL COUNTRIES WERE, FOR THE FIRST TIME, ABLE TO ESTABLISH CONTINUING LIAISON COMMUNICATIONS WITH OTHER REPRESENTED ORGANIZATIONS ON A DIRECT PROFESSIONAL LEVEL AND TO INITIATE JOINT INVESTIGATIONS.

FOR EXAMPLE, A MULTI-NATIONAL, CASE-SPECIFIC FRAUD SEMINAR WAS CONDUCTED BY THE FBI'S FINANCIAL CRIMES SECTION FROM FEBRUARY 18-22, 1996, IN BERLIN, GERMANY. THE PROGRAM DEALT WITH BANK FAILURES AND BROUGHT TOGETHER INVESTIGATORS FROM THE UNITED STATES, LATVIA, NETHERLANDS, RUSSIA, AND GERMANY FOR A PRACTICAL CASE TRAINING INITIATIVE.

THE RESULTING PRODUCT OF THESE CONSTRUCTIVE MEETINGS IS AN INVESTIGATIVE ORGANIZED CRIME TASK FORCE, INTERNATIONAL IN SCOPE, THAT IS TARGETING SIGNIFICANT CRIMINAL ORGANIZATIONS DETERMINED TO BE A MAJOR THREAT TO MANY NATIONS, INCLUDING THE UNITED STATES.

THE FBI ALSO PRESENTED A NUCLEAR NON-PROLIFERATION CONFERENCE AT THE FBI COMPLEX AT QUANTICO, VIRGINIA FROM APRIL 18-21, 1995, AND TWENTY-EIGHT (28) SEED AND FSA NATIONS SENT REPRESENTATIVES, INCLUDING, AMONG OTHERS, RUSSIA AND UKRAINE. THE CONFERENCE OUTLINED THE PROBLEMS OF NUCLEAR MATERIALS AND WEAPONS PROLIFERATION FROM THE COUNTRIES OF THE FORMER SOVIET UNION AND COUNTER-PROLIFERATION PROPOSALS AND TRAINING INITIATIVES. THE CONFERENCE IS INCLUDED AS A FSA INITIATIVE TO ADDRESS THIS SERIOUS PROBLEM.

THE DEPARTMENT OF DEFENSE AND THE FBI ARE CURRENTLY IN THE FINAL STAGES OF SUBMITTING THE DOD/FBI COUNTERPROLIFERATION PROGRAM REPORT TO CONGRESS REGARDING PLANS TO PROVIDE INTERNATIONAL TRAINING SEMINARS ON NUCLEAR SMUGGLING. THIS IS PART OF OUR NUNN-LUGAR FUNDED INTERNATIONAL TRAINING SEMINARS PROGRAM ON NUCLEAR SMUGGLING.

THE FBI'S NUCLEAR BIOLOGICAL CHEMICAL PROLIFERATION UNIT IS PRESENTLY IN POSSESSION OF A REPORT COMPILED BY AN FBI TEAM THAT RECENTLY CONDUCTED A TRAINING ASSESSMENT IN THE CZECH REPUBLIC. DURING THIS ASSESSMENT, WHICH WAS COORDINATED BY OUR LEGAL ATTACHE IN VIENNA, THE FBI REPRESENTATIVES FROM THE

INTERNATIONAL COORDINATION UNIT, THE FBI LABORATORY AND THE ENGINEERING SECTION, MET WITH VARIOUS CZECH LAW ENFORCEMENT AGENCIES, CZECH NUCLEAR SAFETY OFFICIALS, AND FACULTY MEMBERS OF THE REZ INSTITUTE.

THIS ASSESSMENT YIELDED VALUABLE INFORMATION REGARDING THE CONCERNS AND NEEDS OF THE ATTENDING CZECH OFFICIALS. IT IS PROPOSED THAT THE INFORMATION PROVIDED BY THE CZECHS, WITH REGARD TO THEIR SPECIFIC REQUIREMENTS, WILL RESULT IN ESTABLISHING A TRAINING PROTOTYPE FOR OTHER COUNTRIES REQUESTING SUPPORT IN COUNTERPROLIFERATION MATTERS.

#### INTERAGENCY WORKING GROUP

AS THIS COMMITTEE IS FULLY AWARE, THE CONGRESS ESTABLISHED THE INTERAGENCY WORKING GROUP (IWG) TO MAKE RECOMMENDATIONS AS TO TRAINING AND OTHER SUPPORT RECEIVED BY RUSSIA, THE NEWLY INDEPENDENT STATES, AND OTHER EASTERN EUROPEAN COUNTRIES. THIS HAS BEEN A SUCCESSFUL ENDEAVOR THAT GREATLY ASSISTS US IN THE PROPER COORDINATION OF OUR TRAINING EFFORTS ABROAD.

THE IWG ALLOWS ALL FEDERAL LAW ENFORCEMENT AGENCIES TO PARTICIPATE IN DEPARTMENT OF STATE FSA AND SEED FUNDED TRAINING INITIATIVES WITHIN THE FORMER SOVIET UNION AND BLOC NATIONS, BASED ON THEIR RESPECTIVE LAW ENFORCEMENT JURISDICTION. PARTICIPATION IN THE IWG PREVENTS DUPLICATION AND WASTE OF RESOURCES. IWG PRIORITIES ARE FORMULATED BY THE DEPARTMENTS OF STATE, JUSTICE AND THE TREASURY, AS DICTATED BY THE VARIOUS LAW ENFORCEMENT ENTITIES FROM THOSE DEPARTMENTS, PARTICIPATING ON THE IWG.

THE FBI PARTICIPATES AS A MEMBER OF THE IWG IN CARRYING OUT THE PROGRAMS UNDER THE AUSPICES OF THE FSA AND SEED. LET ME DESCRIBE THE FBI'S ROLE:

\* THE FBI, AS THE AGENCY WITH THE BROADEST FEDERAL LAW ENFORCEMENT RESPONSIBILITY, CONDUCTED A MAJOR PORTION OF THE TRAINING AND TECHNICAL ASSISTANCE DURING FY 1995, WITH A SIMILAR SCHEDULE PLANNED FOR FY 1996.

\* THE FBI HAS EXCLUSIVE TRAINING IN THE AREA OF ORGANIZED CRIME. OTHER PARTICIPATING AGENCIES LIKE THE DRUG ENFORCEMENT ADMINISTRATION AND THE BUREAU OF ALCOHOL, TOBACCO, AND FIREARMS, LIKEWISE HAVE EXCLUSIVE AREAS OF TRAINING BASED ON THEIR EXPERTISE AND JURISDICTION.

\* IN OTHER AREAS, SUCH AS ECONOMIC CRIMES, TRAINING BY THE UNITED STATES SECRET SERVICE, U.S. CUSTOMS SERVICE, FINCEN, AND DEA COMPLIMENTS THAT DONE BY THE FBI.

#### LEGAL ATTACHE PROGRAM

THE FBI'S LEGAL ATTACHE PROGRAM IS THE SINGLE MOST SIGNIFICANT FACTOR IN THE BUREAU'S ABILITY TO DETECT, DETER, AND INVESTIGATE INTERNATIONAL CRIMES IN WHICH THE UNITED STATES OR OUR CITIZENS ARE THE VICTIMS. BY STATIONING AGENTS ABROAD AND ESTABLISHING OPERATIONAL LINKS WITH FOREIGN POLICE, THE FBI SUBSTANTIALLY EXPANDS THE NATION'S PERIMETER OF LAW ENFORCEMENT PROTECTION. GENEROUSLY FUNDED OUT OF THE COMMERCE, STATE, AND

JUSTICE BILL, THE FBI'S LEGAL ATTACHES ARE TRULY OUR FIRST LINE OF DEFENSE.

INTERNATIONAL CRIME HAS GROWN ENORMOUSLY IN RECENT YEARS. TECHNOLOGICAL ADVANCES AND THE END OF THE COLD WAR PROMPTED DRAMATIC INCREASES IN GLOBAL TRAVEL AND TELECOMMUNICATIONS. CRIMINALS HAVE USED THESE CHANGES TO THEIR ADVANTAGE, DIFFUSING THEIR OPERATIONS AROUND THE WORLD TO AVOID LAW ENFORCEMENT SCRUTINY. THE RELENTLESS GLOBALIZATION OF CRIME THREATENS AMERICA BOTH AT HOME AND ABROAD -- AND ALL OTHER LAW-ABIDING NATIONS AS WELL. FOR BETTER OR FOR WORSE, THE GLOBAL VILLAGE IS NOW A LATE-20TH CENTURY REALITY.

OUR EXPERIENCE SHOWS THAT PLACING FBI AGENTS AT CRITICAL POSTS ABROAD PROVIDES THE MOST RELIABLE, EFFECTIVE AND TIMELY MEANS TO COMBAT INTERNATIONAL CRIME -- AND OFTEN AT THE SOURCE. IT IS ESSENTIAL TO STATION HIGHLY-SKILLED AGENTS IN OTHER COUNTRIES TO PREVENT FOREIGN TERRORISM AND FOREIGN CRIME FROM REACHING THE UNITED STATES.

AT PRESENT, THE FBI HAS IN PLACE IN OUR LEGAL ATTACHE OFFICES 70 SENIOR AGENTS AND 54 SUPPORT PERSONNEL IN 23 NATIONS AROUND THE WORLD, FUNDED OUT OF FBI OPERATIONAL FUNDS. DURING FY 1995, THESE OFFICES HANDLED OVER 11,200 MATTERS. THEY ARE THE CONDUIT THROUGH WHICH LAW ENFORCEMENT INFORMATION AND COOPERATION FLOWS BETWEEN THE UNITED STATES AND ITS FOREIGN PARTNERS. THEIR GOAL CAN BE DEFINED SUCCINCTLY: TO KEEP FOREIGN CRIME AS FAR FROM AMERICAN SHORES AS POSSIBLE, TO KEEP FOREIGN CRIME PERMANENTLY AT BAY WHENEVER POSSIBLE, TO HELP COMBAT MORE EFFECTIVELY THOSE CRIMES THAT DO REACH OUR BORDERS. THE WHOLE POINT IS TO PROTECT THE AMERICAN PEOPLE FROM HARM.

FBI AGENTS STATIONED OVERSEAS ARE NOT INTELLIGENCE OFFICERS; THEY ARE NOT A SHADOW INTELLIGENCE AGENCY; AND THEY DO NOT ENGAGE IN ESPIONAGE. THEY ARE LAW ENFORCEMENT AGENTS-- DEDICATED TO FIGHTING ORGANIZED CRIME, TERRORISM, NUCLEAR SMUGGLING, VIOLENT CRIME, DRUG TRAFFICKING, AND ECONOMIC CRIME.

LET ME GIVE A FEW EXAMPLES OF THE DIRECT BENEFITS MADE POSSIBLE BECAUSE OUR AGENTS ARE OVERSEAS AND HAVE THE COP-TO-COP RELATIONSHIPS WITH HOST AUTHORITIES CRITICAL TO EFFECTIVE LAW ENFORCEMENT.

- \* FOR OVER 15 YEARS, FBI AGENTS IN ROME HAVE HAD A CLOSE WORKING RELATIONSHIP WITH ALL THE MAJOR ITALIAN POLICE SERVICES. THROUGH ONE JOINT INVESTIGATION WHICH BEGAN IN 1991, IT WAS DETERMINED THAT MEMBERS OF THE SICILIAN MAFIA, CAMORRA, AND 'NDRANGHETA WERE COLLABORATING WITH THE COLOMBIAN DRUG CARTELS IN SHIPMENTS OF COCAINE TO ITALY AND HEROIN INTO NEW YORK. IN THAT INVESTIGATION -- WHICH UTILIZED SOPHISTICATED INVESTIGATIVE TECHNIQUES, INCLUDING ELECTRONIC SURVEILLANCE -- THE FBI WORKED CLOSELY WITH THE ITALIAN POLICE SERVICES, THE ROYAL CANADIAN MOUNTED POLICE, AND COLOMBIAN JUDICIAL AUTHORITIES. AS A RESULT OF OUR COMBINED EFFORTS, 89 PEOPLE WERE ARRESTED IN THE UNITED STATES, ITALY, CANADA, AND COLOMBIA. SINCE THEIR

- ARRESTS, 30 OF THESE PEOPLE HAVE BEEN CONVICTED IN THE UNITED STATES ALONE.
- \* KOBİ MOWATT, A FUGITIVE FROM THE UNITED STATES, WAS RECENTLY ARRESTED IN TANZANIA WITH ASSISTANCE FROM OUR FBI LEGAL ATTACHES. MOWATT, AN ALLEGED MEMBER OF THE NOTORIOUSLY VIOLENT "FIRST AND KENNEDY STREET CREW," FROM WASHINGTON, D.C., IS CHARGED WITH CONSPIRING TO PARTICIPATE IN A RACKETEERING ORGANIZATION BY COMMITTING ACTS OF MURDER, ROBBERY, KIDNAPPING, AND DRUG DEALING. HE WAS CHARGED IN A 53-COUNT INDICTMENT WITH PARTICIPATING IN FOUR HOMICIDES, INCLUDING A TRIPLE MURDER HERE IN WASHINGTON IN 1994. WITH DIRECT ASSISTANCE FROM OUR LEGAL ATTACHES, AND THE CONSIDERABLE ASSISTANCE OF FOREIGN POLICE AGENCIES, THE FBI WAS ABLE TO TRACK MOWATT THROUGH RUSSIA UNTIL HIS CAPTURE IN TANZANIA. LAST MONTH, HE WAS BROUGHT BACK TO THE UNITED STATES TO STAND TRIAL.
  - \* IN A MAJOR MOVE AGAINST A GROWING RUSSIAN ORGANIZED CRIME STRUCTURE IN THE UNITED STATES, THE FBI LAST YEAR ARRESTED VYACHESLAV KIRILLOVICH IVANKOV, ALLEGEDLY ONE OF THE MOST POWERFUL RUSSIAN CRIME LEADERS IN THIS COUNTRY, ALONG WITH FIVE OF HIS ASSOCIATES ON FEDERAL CHARGES OF CONSPIRACY TO COMMIT EXTORTION. THE ARRESTS IN NEW YORK FOLLOWED AN INTENSIVE FBI INVESTIGATION THAT WAS AIDED GREATLY BY THE RUSSIAN MINISTRY OF INTERIOR AND THE ROYAL CANADIAN MOUNTED POLICE AND MADE POSSIBLE BECAUSE OF OUR LEGAL ATTACHES AND THE RELATIONSHIPS THAT HAVE FLOWED FROM COOPERATION ABROAD. THE ARREST WAS BASED UPON FEDERAL ARREST WARRANTS WHICH CHARGE A TOTAL OF NINE INDIVIDUALS. ACCORDING TO RUSSIAN LAW ENFORCEMENT AUTHORITIES, IVANKOV FORMED A SUBSTANTIAL CRIMINAL ORGANIZATION IN RUSSIA BEFORE HE ENTERED THE UNITED STATES ALLEGEDLY TO MANAGE AND CONTROL RUSSIAN ORGANIZED CRIME ACTIVITIES IN THIS COUNTRY. RUSSIAN ORGANIZED CRIME GROUPS USE BUSINESSES IN THE FORMER SOVIET UNION, WESTERN AND CENTRAL EUROPE, AND THE UNITED STATES TO SERVE AS FRONTS FOR LAUNDERING THE PROCEEDS OF ILLEGAL ACTIVITIES AND FOR CONDUCTING HIGHLY PROFITABLE COMMERCE IN GOODS IN THE SUCCESSOR STATES OF THE SOVIET UNION, KNOWN AS THE COMMONWEALTH OF INDEPENDENT STATES. IN NOVEMBER 1994, SEVERAL OF THE DEFENDANTS ALLEGEDLY BEGAN TO EXTORT SEVERAL MILLION DOLLARS FROM AMERICAN AND RUSSIAN BUSINESSES. INTELLIGENCE INFORMATION WAS SHARED ON A CONTINUING BASIS AMONG THE FBI, THE RUSSIAN MVD AND THE ROYAL CANADIAN MOUNTED POLICE. FBI LEGAT PARTICIPATION WAS CRITICAL.
  - \* LAST AUGUST, EYAD ISMAIL WAS APPREHENDED ABROAD AND BROUGHT BACK TO NEW YORK TO FACE AN INDICTMENT CHARGING HIM WITH TAKING PART IN THE TERRORIST BOMBING OF THE WORLD TRADE CENTER THAT KILLED SIX PEOPLE AND INJURED OVER 1,000. AS THE COMPLAINT ALLEGED, ISMAIL FLED THE

- UNITED STATES THE NIGHT OF THE BOMBING. HE WAS TAKEN INTO CUSTODY AFTER AN EXTENSIVE INVESTIGATION GREATLY FACILITATED BY AN FBI LEGAL ATTACHE.
- \* LAST APRIL, RAMZI YOUSEF AND ABDUL HAKIM MURAD WERE INDICTED IN NEW YORK FOR A CONSPIRACY AND ATTEMPT TO BOMB UNITED STATES COMMERCIAL AIRLINES SERVING AIR ROUTES IN THE FAR EAST. THE INDICTMENT ALLEGES THAT AS PART OF THE CONSPIRACY, YOUSEF PLACED A BOMB IN A FOREIGN AIRLINER THAT EXPLODED AND KILLED ONE PASSENGER. YOUSEF WAS ALREADY FACING CHARGES RELATING TO THE BOMBING OF THE WORLD TRADE CENTER IN NEW YORK. WITH CRITICAL ASSISTANCE FROM FBI LEGAL ATTACHES, YOUSEF WAS TRACKED TO PAKISTAN, APPREHENDED, AND EXTRADITED TO THE UNITED STATES TO STAND TRIAL. MURAD WAS IDENTIFIED AND LIKEWISE EXTRADITED TO THE UNITED STATES. BOTH AWAIT TRIAL.
  - \* MOST RECENTLY, FOUR RUSSIANS WERE CHARGED IN NEW YORK FOR CONSPIRING TO DEFRAUD 24 RUSSIAN COMPANIES, INCLUDING A CHARITY ESTABLISHED TO AID THE VICTIMS OF THE CHERNOBYL NUCLEAR DISASTER, OF APPROXIMATELY \$10.8 MILLION.

MANY OTHER IMPORTANT CASES HAVE BEEN MADE POSSIBLE ONLY BECAUSE THE FBI LEGAL ATTACHES ARE ABLE TO FREELY WORK WITH OUR FOREIGN COUNTERPARTS TOWARD THE MUTUALLY-SHARED GOAL OF EFFECTIVE LAW ENFORCEMENT UNDER THE RULE OF LAW.

THE FBI IS DEEPLY GRATEFUL TO CONGRESS FOR THE SUPPORT AND CONTRIBUTIONS FOR OUR LEGAL ATTACHE PROGRAM. A RELATIVELY FEW AGENTS BEYOND OUR BORDERS MAKE A CONTRIBUTION OUT OF PROPORTION TO THEIR SMALL NUMBERS AND THE MODEST AMOUNT OF DOLLARS SPENT.

AS PART OF THE FY 1996 APPROPRIATIONS PROCESS, OUR APPROPRIATIONS SUBCOMMITTEES HAVE ASKED US TO PREPARE A PLAN REFLECTING OUR ASSESSMENT OF BOTH THE SHORT AND LONG-TERM LEGAL ATTACHE EXPANSION NEEDS. WE HAVE BEEN WORKING CLOSELY WITH THE DEPARTMENTS OF JUSTICE AND STATE TO PROVIDE CONGRESS WITH A CAREFULLY THOUGHT-OUT PLAN DESIGNED TO BETTER MEET THE CHALLENGES WE FACE FROM EXPLODING INTERNATIONAL CRIME AND TERRORISM. THIS PLAN -- WHICH IS UNDER FINAL ADMINISTRATIVE REVIEW -- IS A REALISTIC, DOWN-TO-EARTH ASSESSMENT OF THE VAST CHANGES THAT HAVE OCCURRED IN RECENT YEARS IN THE WORLD, ESPECIALLY IN EUROPE WITH THE BREAKUP OF THE FORMER SOVIET UNION.

I AM MOST GRATEFUL TO OUR HOUSE AND SENATE COMMITTEES FOR THEIR LEADERSHIP. QUITE CANDIDLY, CONGRESS HAS TAKEN PLANNING FOR FBI LEGAL ATTACHE OFFICES OUT OF THE CHOPPY ONE-YEAR CYCLE AND PROMPTED US TO DEVELOP A LONG-TERM, COMPREHENSIVE RESPONSE TO A RAPIDLY CHANGING AND WORSENING INTERNATIONAL CRIME SITUATION. ONCE COMPLETED, I AM LOOKING FORWARD TO DISCUSSING THE PLAN WITH CONGRESS.

I AM EXTRAORDINARILY GRATEFUL FOR THE SUPPORT CONGRESS HAS GIVEN THESE PROGRAMS. IN MY VIEW, THIS REPRESENTS CAPITALIZING ON A RARE OPPORTUNITY TO PROTECT OUR CITIZENS BY

BEING BOTH PREPARED AND SUFFICIENTLY AGGRESSIVE AS CRIME MOVES INTO THE GLOBAL ARENA.

AT THE SAME TIME, I WISH TO THANK THE DEPARTMENT OF STATE AND SECRETARY CHRISTOPHER FOR SUPPORTING THE FBI'S FOREIGN POLICE TRAINING EFFORTS AND FOR THEIR LEADERSHIP ON THE IWG. SINCE MY TRIP TO MOSCOW AND EASTERN EUROPE IN 1994 WE HAVE HAD AN ONGOING AND PRODUCTIVE DIALOGUE ABOUT OUR TRAINING INITIATIVES -- INDEED, AN EXTRAORDINARY PARTNERSHIP HAS FORMED. IN ADDITION TO SECRETARY CHRISTOPHER, DEPUTY SECRETARY STROBE TALBOTT, FORMER ASSISTANT SECRETARY RICHARD HOLBROOKE, AMBASSADOR ROBERT GELBARD, U.S. AMBASSADOR TO HUNGARY DONALD BLINKEN, AND MANY OTHERS -- BOTH HERE AND ABROAD -- HAVE BEEN INSTRUMENTAL IN PROMOTING THESE PROGRAMS.



STATEMENT  
OF

ERIC SEIDEL  
DEPUTY ATTORNEY GENERAL IN-CHARGE  
NEW YORK STATE ORGANIZED CRIME TASK FORCE

BEFORE THE  
HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

HEARING DATE  
April 30, 1996



### TESTIMONY

Mr. Chairman and members of the committee, I am honored by this opportunity to represent New York State Governor George Pataki and New York State Attorney General Dennis Vacco by testifying before you today. My comments will focus on an overview of the problems posed by Russian criminal groups in the New York area.

Before continuing, a caveat must be added. When discussing "Russian immigrant crime", whether by groups or individuals, it must be understood that "Russian" is the shorthand adopted over the years to include people who were born in the former Soviet Union.

Russian immigrant criminal activity is a serious crime problem in the New York area. Russian immigrant criminal groups are involved in a broad variety of crimes that range from both simple and sophisticated frauds to narcotics trafficking and murder. The most prevalent and pernicious crimes involve financial frauds. One example is the motor fuel tax scams. In that scheme fictitious companies were set up to avoid the payment of state and federal taxes. It is estimated that as a result of the fuel tax scams Russian crime groups have cost state and federal governments billions of dollars over the last 15 years. Successful federal and state prosecutions have resulted in the dismantling of particular groups. However, the scams are continuing. A current example is a scheme involving Russians who exploit the difference in gas tax rates between New York State and New Jersey. New York's gas tax is higher than the tax in New Jersey. Gas is purchased in New Jersey and the tax is legally paid at the lower New Jersey rate. However, the purchaser then illegally transports the gas into New York without paying the higher New York tax. The difference between the New York tax and the New Jersey tax is retained by the criminals. In one recent case it is conservatively estimated that New York State and other localities have lost over \$20,000,000 in tax revenues over the past 18 months due to this particular scheme.

Russian criminals incorporate companies and use them for a variety of illegal purposes. Between 1993 - 1995 one Russian criminal incorporated 3500 hundred different shell companies. These companies opened bank accounts through which millions of dollars have passed. The origin of the money seems to be in the former Soviet Union. We do not know how much of that money is derived from illegal activities. In addition to being used as conduits for the transfer of money the shell companies are used for a variety of illegal purposes. Fraudulent letters of invitation are issued by these companies for the purpose of obtaining of visas for Russians who want work permits in the United States. Credit cards are obtained on the companies' accounts. The cards are then sold to

Russians who use them in Russia. Eventually the bills for the goods purchased with the cards are not paid.

Other crimes of fraud engaged in by Russian crime groups are medicare and medicaid frauds where bills are submitted for services or merchandise never provided; schemes involving staging phoney vehicle accidents and the submission of false insurance claims; welfare frauds; counterfeiting official documents, checks, credit cards and currency.

Additionally, members of Russian criminal groups commit such crimes as murder; kidnapping; narcotics trafficking; robberies; neighborhood extortions where goods are provided to small business at inflated prices; prostitution; shoplifting and the subsequent resale of the stolen goods; and car thefts involving the shipment of stolen cars abroad.

The preceding picture would be incomplete without a discussion of what Russian crime groups are not in the New York area. In spite of their varied and sophisticated criminal activities, Russian groups do not exert monopolistic control over specific areas of illegal activity or sectors of the economy. Russian crime groups, while engaging in narcotics trafficking, do not control the importation or distribution of heroin or cocaine into the New York area. Russian crime groups do not control labor union locals, sectors of the construction industry, the garment district or the Fulton Fish Market. Nor do they control the garbage collection industry or illegal gambling. In short, they do not have the influence of the South American drug cartels or La Cosa Nostra.

The structure of most Russian groups is different from that of a La Cosa Nostra Crime Family. The Russian groups are fluid with members banding together to commit a crime or series of crimes. There might be a leader, often the person who devises the criminal plan or schemes. There does not seem to be a defined organizational structure or hierarchy which continues beyond the particular personalities.

However, it should be noted that we are aware of one Russian criminal group presently operating in the New York area that does seem to have a hierarchical structural continuity. Members of that group, comprised of about 15 - 20 individuals, primarily engage in money laundering and extortion. Moreover, there is evidence that the group reports to a criminal leadership in Russia. It must be emphasized that this group is, at present, the exception to the rule.

Another aspect of the Russian immigrant crime problem is the individual Russian immigrant criminal. This is a much less serious problem than the Russian criminal group. One way to measure the scope of this problem is to look at the number of arrests of people who were born in the former Soviet Union. Statistics compiled by the New York City Police Department show that in 1993 about 400 Soviet immigrants were arrested in New York City. In 1994 approximately 750 were arrested. In 1995 approximately 1000 were

arrested. Most of these arrests occurred in Brooklyn and over 90% were for misdemeanors or violations such as traffic offenses.

While the number of individuals arrested shows an increase from year to year the problem can be put into perspective by comparing the above numbers with the number of overall arrests by the New York City Police Department in New York City. In 1993 there were 272,178 arrests. In 1994 there were 328,782 arrests. (The overall arrest numbers for 1995 and 1996 are not available.) Clearly, the percentage of Russian immigrant arrests is quite small.

The Russian crime problem must be addressed on several fronts. In regard to Russian criminal groups committing sophisticated financial crimes, frauds and violent crimes there should be a multi-agency effort on a local and federal level. In appropriate cases such task forces comprised of agents, police officers and prosecutors with different areas of expertise and experience can most effectively investigate and prosecute criminals who violate a myriad of laws ranging from state and federal tax violations to immigration law violations, to currency reporting violations to insurance frauds to murders. Joint task forces further help to insure exchange of information between state and federal agencies investigating and prosecuting this relatively new crime phenomenon. International cooperation most particularly on a cop to cop or prosecutor to prosecutor level is critical. It is obvious that an exchange of information between U.S. and foreign law enforcement agents regarding international criminals and their activities can only be helpful to investigations and prosecutions. Data bases must be developed and shared between law enforcement agencies. Appropriate safeguards can be initiated to insure the security of extremely sensitive information. Professional relationships between American and foreign law enforcement agents must be enhanced through academies like International Law Enforcement Training Academy in Budapest, Hungary where United States law enforcement personnel meet and train their professional counterparts in Eastern Europe and the former Soviet Union. Such contacts and training can and will be used to further criminal investigations both in the U.S. and abroad. Additionally, recruitment of police officers fluent in Russian and other languages spoken in the former Soviet Union is important to effective local investigative efforts.

Successful investigation and prosecution of Russian criminal groups will require major cooperative efforts on local, national, and international levels. A significant commitment of resources must be made if we are to curtail their illicit activities.

STATEMENT ON POST-SOVIET ORGANIZED CRIME  
FOR HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

APRIL 30, 1996

LOUISE I. SHELLEY  
PROFESSOR, DEPARTMENT OF JUSTICE, LAW AND SOCIETY AND SCHOOL OF  
INTERNATIONAL SERVICE  
THE AMERICAN UNIVERSITY

Testimony before the House International Relations Committee on  
Post-Soviet Organized Crime, April 30, 1996

Louise Shelley, Department of Justice, Law and Society, and School  
of International Service, The American University

My knowledge of post-Soviet organized crime results from more than twenty years of study of crime and law enforcement in the former USSR and in the successor states. For the past year I have been running a program in four cities in Russia, designed with leading Russian academic specialists and policy advisors, to develop ways to fight organized crime. The centers in Moscow, St. Petersburg, Ekaterinburg and Irkutsk, initiated with MacArthur Foundation funding and support from the Rule of Law consortium is soon to be expanded with enhanced governmental funding in Russia and to be replicated in Ukraine with leading criminal law reformers there. Running a program with Russian colleagues has permitted me to more fully understand the dimensions and social costs of the ever worsening problem of organized crime.

My statement will provide a broad overview of the subject that will lead to specific policy recommendations. Many of the dimensions have been covered elsewhere but I would like to highlight certain distinctive points.

There are two principal ideas I want to explore:

1) **Post-Soviet organized crime has forced a reappraisal of the general threat posed by organized crime.** Never before has organized crime been simultaneously a highly diversified phenomenon and an

international security threat. It can determine the future course of several nuclear powers including Russia, Ukraine and Kazakhstan.

2) **Post-Soviet organized crime represents a new form of authoritarianism.** Citizens still experience fear but are now intimidated by organized crime groups that operate both within and outside the government. The coercive apparatus of the state (the KGB and MVD) has been privatized to organized crime. Unlike Soviet authoritarianism which affected citizens within its borders or sphere of influence, the international reach of post-Soviet organized crime groups intimidates individuals and the media outside the confines of the NIS.

#### **Why and How is Post-Soviet Organized Crime Distinct?**

Post-Soviet organized crime, operating in a declining super-power has emerged on the international arena with an intensity and diversity of activities that is unmatched by most other transnational crime groups. Its international development has been recent and rapid but its roots date back at least thirty years. Emerging from a post-socialist economy where the resources of the state are being rapidly redistributed, particularly in Russia, these groups have the ability to capitalize on this redistribution of wealth. Unlike Italy or Colombia where crime groups have reinvested significant resources in their countries, most of the wealth of these groups lies in foreign banks and is rapidly being invested in foreign economies. The law enforcement structures and

the military, as shown in the Chechnya conflict, are incapable or unwilling to deal with this criminality and members of these bodies are part of organized crime or complicit in organized crime activities.

Post-Soviet organized crime shares many features with other international organized crime groups. First, it participates in many of the same illicit activities such as gambling, prostitution, drug trafficking, people smuggling. Second, it operates simultaneously in the licit and illicit economies. Third, many of its key actors are members of ethnic minorities. Fourth, corruption of the law enforcement and government officials are central to their operations. Fifth, violence is used to promote its objectives.

Post-Soviet organized crime is, however, distinctive for many reasons. Its rapid growth, its reach to many regions, its strategic alliances with Asian, African and Latin American crime groups is forcing us to reassess the threat and capacities of organized crime groups. The unprecedented economic transition in a massive territory spanning Europe and Asia facilitates organized crime of unprecedented dimensions.

The unique features of post-Soviet organized crime are as follows:

**1) Large Scale Political, Social and Economic Impact**

Organized crime profoundly shapes the successor states. For many citizens of Russia and Ukraine, organized crime is the major impediment to democracy and economic transition. Recent opinion



polls in Ukraine show that a majority of citizens believe organized crime has usurped the state. We may be close to the "mafia state" that is also a nuclear power.

## **2) Security Threat**

Organized crime from the former USSR provides an international security threat because it engages in smuggling of nuclear and strategic materials and weapons. Specialists from the military industrial complex and computer industry work for organized crime groups and for rogue states. Former members of the KGB work for organized crime groups as money launderers, communications specialists and in other capacities. The Spring 1996 issue of Demokratizatsiya, a journal I edit, contains suppressed transcripts of the Supreme Soviet probes into the role of KGB and military personnel in illegal financial activity.

## **3) Diversification of Activities**

Post-Soviet organized crime groups participate in more diverse forms of crime commission than most other transnational groups. Unlike other groups which have a narrower profile in drug or alien smuggling, gambling or arms trafficking, post-Soviet organized crime perpetrates a full range of illicit activities, including large-scale penetration into the newly privatizing (legitimate) economy.

## **4) Diversification of Actors**

Participants in post-Soviet organized crime are more diverse than in other organized crime groups. They represent an unusual amalgam of professional criminals, former party elites, members of

the second economy, the military-industrial complex and the law enforcement and security apparatus. Many current members of the government at the federal, regional and municipal levels are complicit in their criminal activity. Many officials believe that current law enforcement and security apparatus personnel are heavily implicated in this organized crime activity or are corrupted by its personnel.

#### **5) Educational and Professional Skills**

The educational and professional skills of many members of post-Soviet organized crime are higher than those of other crime groups which need to retain outside expertise. NIS organized crime has within its ranks specialists from the security forces, military and large scale technical elite left unemployed or displaced by the collapse of the Soviet state. They provide NIS crime groups with computer and communications skills, technical expertise and money laundering experience. The combination of KGB capabilities with organized crime provides a special threat to democratization and the potency of organized crime activities in the United States and elsewhere.

#### **6) Export of Capital**

Organized crime groups are responsible for exporting large sums of capital from the former Soviet Union and appear to be repatriating less of their profits than many transnational crime groups. At a recent Ministry of Interior conference in Moscow, a respected governmental specialist on capital flight reported that a total of \$150 million had been exported from Russia since 1991.

At least 40% of the total, according to knowledgeable estimates is illicit capital.

#### **7) Deprivation of Tax Base**

Post-Soviet organized crime groups are more detrimental to their countries' tax bases than their compatriots in other countries. Apart from failing to pay taxes, organized crime schemes deprive the state of needed revenues. Recent research of the Russian customs' service reveals that duty is paid on only 35 out of every 1000 cars imported into the country. This revenue loss is not just the result of corruption but of organized crime activity. The impact of this revenue loss is to make Russia, in particular, more dependent on foreign loans.

#### **8) Domination of the Banking Sector**

Organized crime groups in Russia have more control over the banking sector than their compatriots in other countries. Hundreds of banks are owned or controlled by organized crime facilitating money laundering abroad for Russian groups and providing a service for foreign crime groups. Organized crime's domination of the banking industry is the biggest impediment to economic growth and the development of healthy business.

#### **9) Privatization of State Resources to Organized Crime**

Italian, Colombian and Mexican organized crime groups have benefited from the privatization of state resources but the possibilities for gain have been no where greater than in the transitional states of the former socialist bloc. Privatization of state assets to organized crime groups allows them to shape future

economic development and acquire resources on an unprecedented scale. In other countries, organized crime groups following privatization become passive investors. In contrast, in Russia, privatization to organized crime groups has often been a prelude to the export of natural resources and financial assets.

#### **10) Law Enforcement and Security Personnel as Key Actors**

Domestic law enforcement capabilities have been neutralized because of endemic internal corruption and pressure from above. Furthermore, there is an unprecedented situation in the number of experienced law enforcement, security and intelligence personnel who are participating in organized crime activity both domestically and abroad.

**Post-Soviet organized crime represents a new form of authoritarianism.**

Traditional authoritarianism is based on state control. The authoritarianism of organized crime represents abnegation of the state's obligations to the citizenry. The government because it is complicit, compromised or impotent is unable to protect citizens from threats against their life, livelihood, or economic security emanating from organized crime groups.

The authoritarianism of organized crime manifests itself in the following ways:

#### **1) Undermines Democratic System**

Neither the bureaucracy, the presidential power or the law enforcement apparatus is able or committed to protecting the

citizenry. The state is unable to protect the interests of its citizens. Organized crime promotes authoritarianism by undermining free elections and the development of an effective legal system. This is particularly crucial in this transitional period where the course of democracy and the shape of legislation is being determined. Organized crime promotes its own candidates who acquire parliamentary immunity following their election. The criminalized banking sector is presently financing different political campaigns as an insurance against post-election clean-up of the banking sector.

## 2) Intimidation of Citizenry

Citizens who confront organized crime groups still live in fear. Almost none of the hundreds of contract killings perpetrated by organized crime groups throughout the country has been solved. Citizens cannot confront the power of organized crime in the labor, banking sector or the media. Law enforcement is incapable of protecting citizens or even legal personnel who stand up to organized crime.

The corruption of the post-Soviet prison system means that incarcerated criminals can still operate with impunity from the state penal institutions. Therefore, even if the government successfully intervenes, it cannot protect its citizens from the threat of organized crime.

Citizens who move abroad cannot even feel safe because Russian organized crime acts transnationally. Highly paid athletes in the United States are subjected to extortion threats because organized

crime can intimidate them here and their families in the former Soviet Union. Prostitutes in Western Europe are compelled to stay in prostitution because enforcers from the former Soviet Union threaten them and their families.

### 3) Privatization of State Coercion: Law enforcement and KGB

Privatization of law enforcement has been enormously successful. Presently, approximately 800,000 individuals work in security bodies comprised of former law enforcement, security and military personnel. These individuals are outside of state regulation. They do not just protect businesses but intimidate honest citizens and business competitors. Soviet law enforcement was subject to more controls and oversight than these "independent" enforcers.

The privatization of state law enforcement is a real concern to honest Russian law enforcement and parliamentarians. Evidence of this was presented in a recent issue of Trends in Organized Crime.

### 4) Intimidation of the Press and Journalists Domestically and Internationally

Journalists and regional newspapers which attempt to confront organized crime are subjected to the strong arm techniques of organized crime. As a forthcoming article in the Summer issue of Demokratizatsiya reveals, journalists are resisting the purchase of newspapers by the criminalized banking sector because it is subverting newspaper coverage. Newspapers and magazines unable to stay viable without injections of cash are often selling out to banks. This is particularly affecting financial and banking

reporting on television and in print.

The significant financial resources of Russian organized crime are limiting press freedoms abroad by using intimidating law suits to stifle revelations in European and American newspapers. The Wall Street Journal was willing to assume the legal costs that followed the publication of an opinion piece revealing the significant role of former KGB personnel in the Russian banking sector and in organized crime overall. The suit against the Journal was dropped by the Russian side after it had spent millions of dollars in legal fees. Several western newspapers have failed to publish articles that disclose the activities of Russian organized crime groups because they fear the costly suits that will follow.

#### **5) Privatization of State Resources to Organized Crime**

Private property is the citizens' bastion against state authoritarianism. But the citizens of the former Soviet states have acquired almost no resources from the privatization which has occurred. Instead, the preponderance of property has been transferred to organized crime groups, former members of the party elite and corrupt members of the law enforcement and security apparatus. These groups now have the financial resources to execute their illicit activities both domestically and internationally. Citizens have not acquired the financial autonomy from regional bosses who are allied with organized crime.

#### **6) Civil Society is Subverted by Organized Crime**

Recent research reveals that Russians believe that civil society is dominated by organized crime. The significant role that

the criminalized banking sector has assumed in the development of "civil society" has prevented the emergence of truly autonomous groups. Many charity funds have been used to launder money. The recent indictment in New York of individuals who embezzled from the Chernobyl victims funds raises serious questions about the propriety of the management of this Russian charity.

Individual citizen groups have not developed to fight organized crime whereas many citizens recognize this as the most serious problem facing their society.

#### Policy Implications

There are important implications for intelligence, counterintelligence, law enforcement and foreign policy communities.

- 1) The United States cannot deal with the problem of post-Soviet organized crime exclusively on the state level because we are dealing either with a corrupted state or with non-state actors that the state cannot control. Many of the individuals we are dealing with on this problem are themselves part of the problem.
- 2) With the privatization of parts of the KGB and MVD to organized crime, we are dealing with both a law enforcement and a counterintelligence problem simultaneously.
- 3) We must seek to establish and foster networks of non-state actors to fight organized crime. The organized crime study centers now operating with MacArthur-Rule of Law funding are serving as useful vehicles to coordinate Russian and American government



resources and overcome problems of systemic corruption. Promotion of networks outside the corrupted governmental structures would also prove effective in fighting organized crime.

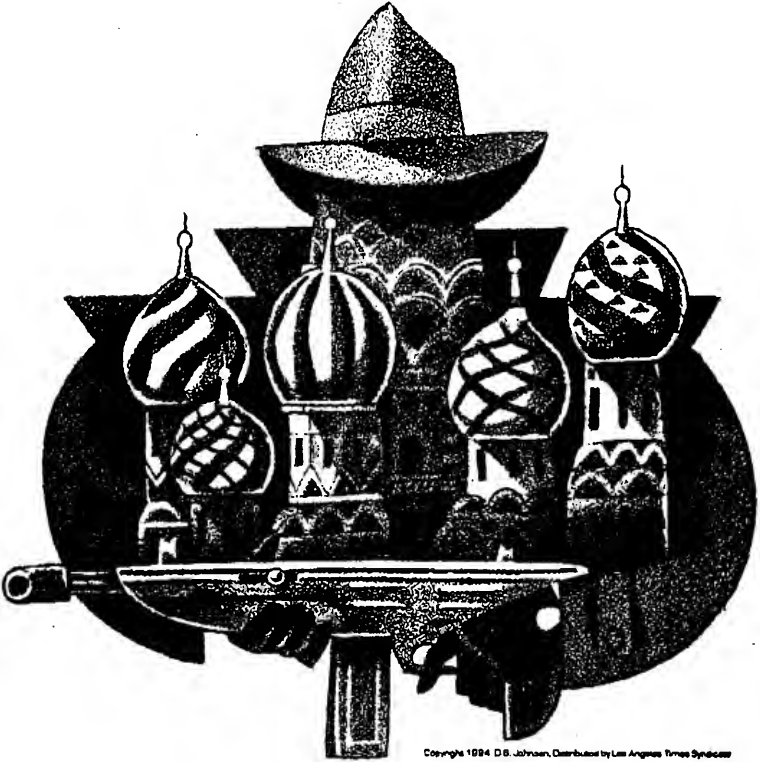
3) We must encourage the development of authentic civil society and mass media which is truly independent

4) We must closely monitor the process of privatization because it is giving organized crime groups the resources to function on a mass scale both domestically and abroad. Appropriate safeguards must be instituted in the privatization effort for Ukraine and other successor states. Otherwise, we are complicit in the enrichment of organized crime and the deprivation of citizens' property rights.

5) We must use law enforcement and other legal mechanisms to ensure that naturalized American citizens from the NIS are not intimidated by post-Soviet organized crime groups

6) We must ensure that our AID programs do not inadvertently facilitate organized crime. We must institute safeguards in the privatization assistance, law enforcement training, intelligence cooperation and general development and economic assistance. We should examine past and on-going programs to ensure that we are not aggravating the problem of organized crime.

# RUSSIAN ORGANIZED CRIME: CALIFORNIA'S NEWEST THREAT



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March 1996

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ATTORNEY GENERAL**



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## **RUSSIAN ORGANIZED CRIME (ROC)**

### **Introduction**

Russian organized crime has become a significant problem for California law enforcement agencies. During the past several years, some Russian emigres have established a growing number of loosely structured criminal networks in this state that are involved in sophisticated criminal activities. The law enforcement intelligence community has also become aware of at least four structured Russian criminal organizations operating in California.

Russian organized crime includes crime groups from all the republics which comprised the former Soviet Union. These crime groups are operating in many of the major cities in California including Los Angeles, San Francisco, San Jose, Sacramento, and San Diego. Russian crime figures have been identified in cases involving extortion, prostitution, insurance and medical fraud, auto theft, counterfeiting, credit card forgery, narcotics trafficking, fuel tax fraud, money laundering, and murder.

Russian organized crime networks are also operating in New York, Boston, Chicago, Miami, Cleveland, Philadelphia, and Seattle. Many of the California-based networks communicate and, in many cases, are connected with these out-of-state groups in their criminal activities.

### **Organized Crime In the Former Soviet Union**

Many Russian organized crime groups in the United States have ties to organized crime groups in Russia.<sup>1</sup> A report on

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<sup>1</sup> Washington, D.C. Times, November 3, 1995

organized crime presented to President Boris Yeltsin by Russia's Analytical Center for Social and Economic Policies, stated "The growth of organized crime threatens the political and economic development of Russia and creates conditions that could help bring the national socialists to power."<sup>2</sup>

An estimated 80 percent of the private enterprises and commercial banks in Russia's major cities are forced to pay a tribute of 10 to 20 percent of their profits to organized crime.<sup>3</sup>

On April 21, 1994, during a Senate hearing, CIA Director R. James Woolsey said, "Organized crime is so rampant in Russia that it threatens Boris Yeltsin's presidency and raises concern that syndicates will obtain and smuggle Russian nuclear weapons to terrorists or foreign agents."<sup>4</sup>

Woolsey revealed that organized crime syndicates from Russia, Asia, and Africa are forming alliances with traditional Italian and Latin American organizations, creating a formidable threat to international peace and stability.

In recognition of this threat, the FBI recently established a Moscow office that will focus on Russian organized crime encroachment into the United States along with the potentially disastrous threat of trafficking in nuclear weapons.<sup>5</sup> U.S. Attorney General Janet Reno has named Russian organized crime groups in the United States a priority target for the U.S. Department of Justice.<sup>6</sup> Law enforcement agencies throughout the U.S. now consider Russian organized crime a major threat and are developing strategies and forming task forces to counter that threat.

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<sup>2</sup> Washington, D.C. Times, January 28, 1994

<sup>3</sup> U.S. News and World Report, March 7, 1994

<sup>4</sup> Washington, D.C. Times, April 21, 1994

<sup>5</sup> San Francisco Examiner, May 25, 1994

<sup>6</sup> U.S. News and World Report, March 7, 1994

## Historical Perspective

During the 1970s and 1980s, according to the U.S. Immigration and Naturalization Service, approximately 200,000 Soviet citizens, many who were Russian-Jewish refugees<sup>7</sup>, immigrated to the U.S. Although the Soviet government liberalized its Jewish immigration policy, it is believed that under this guise the KGB also emptied their prisons of hard-core criminals, much like Cuban dictator Fidel Castro did during the Mariel boatlift of 1980.<sup>8</sup> Many of these criminals are believed to have continued their life of crime in the United States.

The flow of Soviet refugees increased following congressional enactment of the Lautenberg Amendment in November 1989, which allows up to 50,000 Soviet refugees to enter the U.S. each year. This was followed by the adoption in May 1991, of Russia's first law granting its citizens the right to immigrate and travel freely.<sup>9</sup>

In 1994, according to the U.S. Immigration and Naturalization Service, the majority of former Soviet emigres and refugees entering the U.S. declared as their intended state of residence New York, followed by California, Washington, Illinois, Pennsylvania, Massachusetts, Maryland, New Jersey, Ohio, and Oregon. (See chart on page 5.)

According to an April 1986 report by the President's Commission on Organized Crime, the first indication of an organized crime element among Russian immigrants came in 1975 when a gang from the Odessa region of Russia was discovered to be involved in major fraud. The victims were other Russians living throughout the United States. The group became

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<sup>7</sup> Refugees are persons who are outside their country of nationality and are unable to return to that country because of a well-founded fear of persecution.

<sup>8</sup> President's Commission on Organized Crime, April 1986

<sup>9</sup> Special Report on Russian Organized Crime by Middle Atlantic-Great Lakes Organized Crime Law Enforcement Network, August 1992

known as the "Potato Bag Gang" because victims believed they had bought a sack of gold coins but actually received only a bag of potatoes.

Soviet criminal networks gradually expanded into other criminal activities such as extortion, theft, prostitution, and actively preyed upon newly arriving groups of Russian emigres by extorting money from them. The Brighton Beach area of New York City became the hub for Russian organized crime in this country during the mid-1970s. There, Russian criminals developed a working relationship with the La Cosa Nostra (LCN) which allowed them to establish fuel tax fraud schemes in certain areas of New York. The LCN forced the Russian criminals involved in these frauds to pay a large portion of their proceeds as a "tax" to operate.<sup>10</sup>

## **Organization and Structure**

**Russian Organized Crime Groups and Structure in Russia** - In early 1993, the Russian Ministry of Internal Affairs reported there were over 5,000 organized crime groups operating in Russia. These groups were comprised of an estimated 100,000 members with a leadership of 18,000. Although Russian authorities have currently identified over 5,000 criminal groups in that country, Russian officials believe that only approximately 300 of those have some identifiable structure.<sup>11</sup> Organized crime groups in Russia are not nearly as structured as those in the U.S., such as the LCN.

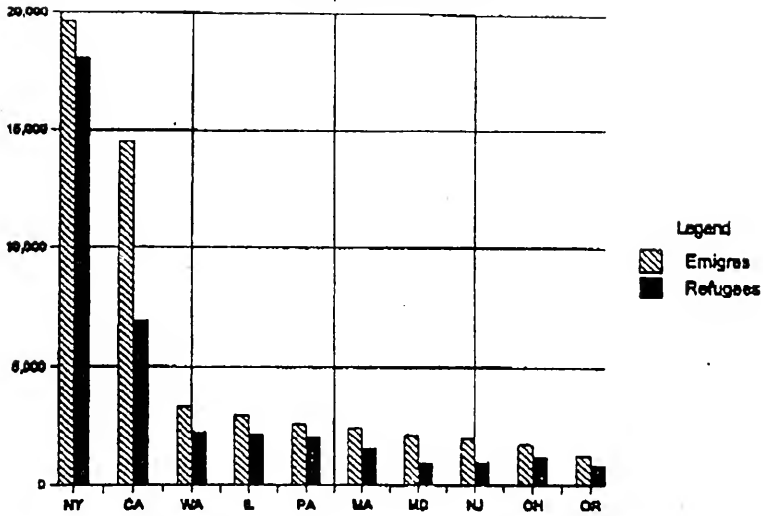
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<sup>10</sup> New York Daily News, April 6, 1993

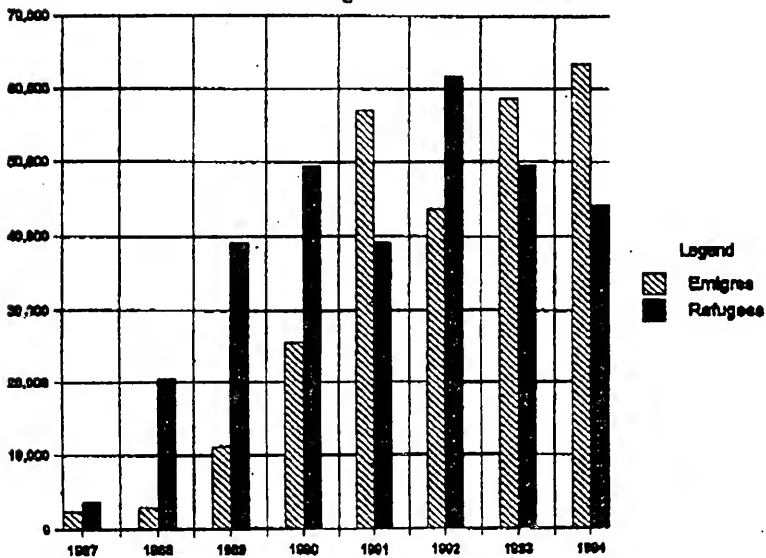
<sup>11</sup> National Drug Intelligence Center, October 1993



States With Largest Soviet  
Population in 1994

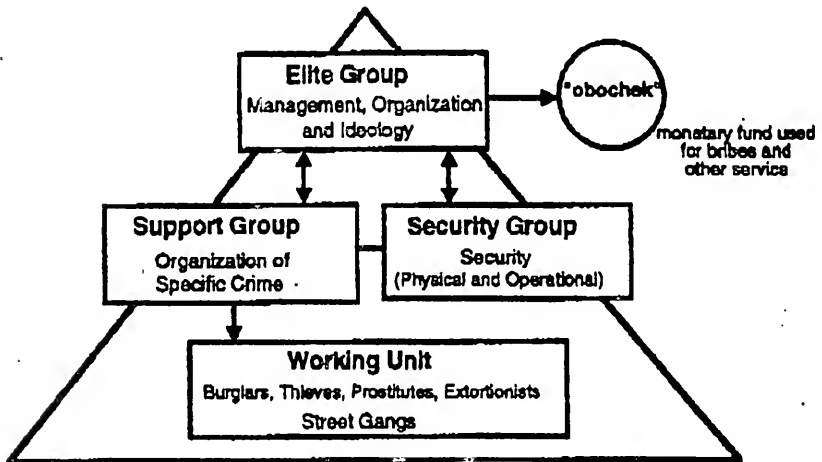


Soviet Immigration to United States



Source: U.S. Department of Health & Human Services  
U.S. Immigration Service  
Chart: California Department of Justice

Knowledgeable sources within the Financial Crimes Enforcement Network (FinCEN)<sup>12</sup> have provided one model of the structure of groups in Russia. The principle behind this structure is to minimize contact with other cells that could lead to the identification of the entire organization.



Source: FinCEN

Each boss, called a "pakhan," controls four criminal cells through an intermediary called a "brigadier." The boss employs two spies that watch over the action of the brigadier to ensure loyalty and that he does not get too powerful. At the bottom of the structure are criminal cells specializing in various types of criminal activity or functions such as drugs, prostitution, political contacts, and "enforcers." A similar structure places an elite leadership on top which is buffered by support and security personnel from the

<sup>12</sup> The Financial Crimes Enforcement Network (FinCEN) was established by the U.S. Department of Treasury in April 1990 as a multi-agency, multi-source financial intelligence and analytical network.

street operators who are committing the crimes. Street operators are not privy to the identity of their leadership. Strategy and planning is done only at the top echelon in order to minimize the risk of detection.

According to law enforcement sources, those structures described above would fall into the old style of Soviet criminal enterprises. It is quite possible as organized crime has changed in Russia, so has the structure of these groups.

**Thieves' Code of Conduct** - There is a traditional code of conduct within this old style of organized crime in Russia called "Vory v Zakone," or thieves in law. This group existed throughout the Soviet era and continues today throughout the republics of the former Soviet Union. In this society the thieves in law live and obey the "Vorovskoy Zakon," the thieves' code. The members are bound by 18 codes and if they are broken, the transgression is punishable by death.

Law enforcement officials in the former Soviet Union indicate that most of the organized crime groups are well organized with sophisticated technical equipment, computers, transportation, financial support, and an excellent counter-intelligence network. Those groups are involved in extortion, precious metal and raw material smuggling, money laundering, fraud, weapons smuggling, narcotics trafficking, and black marketing.

## Russian Organized Crime Groups in the United States

Although Russian organized crime activity in the United States has been expanding for the past 20 years, its most significant growth has occurred during the past five years. In August 1993, the FBI reported there were 15 organized crime groups in the United States with former Soviet ethnic origins.<sup>13</sup> There is considerable debate in the law enforcement community as to the level of organization and structure of Russian organized crime groups in the United States. Additionally, many of the Russian emigres who are involved in criminal activity in this country may be career criminals specializing in crime areas having little or nothing to do with Russian organized crime groups.

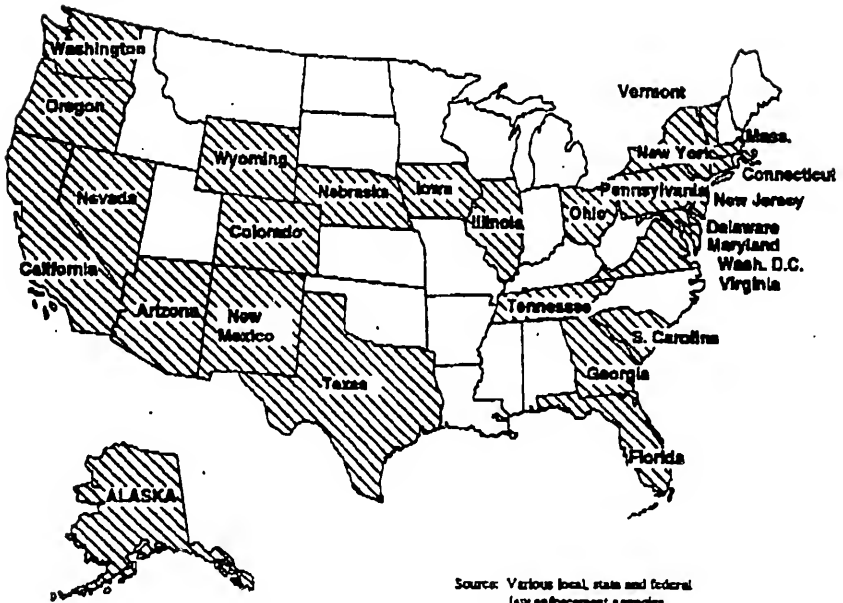
Current information indicates that most Russian organized crime groups are loosely organized and do not have elaborate levels of structure. These groups are often influenced by their ethnic or regional backgrounds. They have formed networks that operate in situations of mutual interest and often shift alliances to meet particular needs.

There is ample information that Russian crime groups operating on the East Coast cooperate and communicate with West Coast groups. Additionally, Russian organized crime groups in the U.S. communicate and operate with organized crime groups in Russia. FBI Director Louis Freeh stated that over 200 of Russia's 6,000-odd crime gangs operate with American counterparts in 17 U.S. cities in 14 states. According to intelligence reports, members of criminal groups in Russia are sent to reinforce and consolidate links between groups in Russia and the United States. Russian organized crime figures are also sent to this country to perform a service such as a gangland murder or extortion.

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<sup>13</sup> Washington, D.C. Times, August 13, 1993

# STATES REPORTING RUSSIAN ORGANIZED CRIME ACTIVITY



Source: Various local, state and federal  
law enforcement agencies

The following example provides some insight into this activity.

According to law enforcement sources, Vyatcheslav Ivankov ("Little Japanese") a Russian organized crime leader, was believed to have traveled to the United States to organize ROC groups in the U.S. and establish links to ROC groups in the former Soviet Union. Ivankov is considered to be a high-ranking organized crime leader, or thief in law, both in Russia and the U.S. Ivankov was arrested in Brooklyn, New York, on June 8, 1995, for trying to extort \$3.5 million from a Wall Street investment firm.



Vyatcheslav Ivankov

Some descriptions of the more publicized Russian organized crime groups in the United States are as follows:

According to law enforcement sources, there are approximately 300 former Soviet Union crime figures and associates in the San Francisco Bay Area, including San Jose. There are approximately 600 to 800 Russian crime figures and associates in the Los Angeles area, home to the second largest number of Russian immigrants in the United States. These figures include members of the Russian and Armenian organized crime groups.

**Northern California Auto Theft Group** - A Northern California auto theft group came to the attention of law enforcement personnel in Sacramento and other parts of Northern California, Oregon, and Washington State in early 1993. This group is primarily made up of blue collar type workers from the Ukraine and Western Russia. Specializing in auto theft and VIN switching, younger members of this group steal vehicles while the

older members operate body shops. This group utilizes Interstate 5 to travel to Oregon and Washington to sell the stolen vehicle parts to other Ukrainian and Russian criminals. Additionally, this group is becoming involved in extortion, cellular telephone fraud, prostitution, and trafficking small amounts of narcotics. Group members have been known to carry weapons and are becoming increasingly violent.

This group does not appear to have any clear cut, well defined structure, though its members appear to have formed networks and cooperate with each other in their criminal endeavors.

**Odessa Mafia** - The Odessa Mafia is considered the dominant Russian organized crime group in the United States. This group established itself in the Brighton Beach area of New York City between 1975 to 1981. In the early 1980s the Odessa Mafia sent two sub-groups to San Francisco and Los Angeles with their leadership remaining in Brighton Beach. The San Francisco Bay Area Odessa Mafia group, unlike their southern counterpart, appear to be highly structured and well organized.

Secrecy surrounds their activities and the language barrier creates additional problems for law enforcement authorities. This has resulted in very little information concerning the hierarchy, the scope of their operations, and the number of members. This crime group is believed to be involved in extortion, money laundering, fraud, loan sharking, and homicide.

**Armenian Organized Crime Groups** - The Hollywood area of Los Angeles and the city of Glendale are the focal points for Armenian organized crime activity. This area has the largest Armenian population outside of the Republic of Armenia.

According to law enforcement sources, several Armenian organized crime groups are becoming well organized with a

structured hierarchy. There are in excess of 450 members and associates of these groups. These crime groups are involved in extortion, fuel frauds, credit card fraud, murder, kidnap, and narcotics trafficking. One group is believed to have approximately 150-200 members. Several members of this organized crime group were convicted in 1994 in Los Angeles of attempted murder, kidnaping, and extortion. This group is believed to be responsible for extorting a number of victims in the Armenian community.

### **Russian Organized Criminal Activities in California**

Russian organized crime in California is involved in extortion, narcotics, murder, auto theft, and loan sharking, as well as insurance, fuel, telecommunication, and credit card frauds. The following cases are examples of several different crime categories.

**Extortion** - Five members of an Armenian-organized crime group in Los Angeles were convicted in 1994 for extortion, kidnaping, and attempted murder. They forcibly detained and threatened victims and their families with great bodily harm unless they paid the suspects money. This group is believed to have extorted the Armenian community in the Los Angeles area for the last 13 years.

**Fuel Frauds** - Fuel frauds, mostly in Los Angeles and New York, cost both the federal and state governments approximately \$2 billion annually in tax revenue. The majority of the fuel frauds are committed by Russian and Armenian organized crime groups operating in Southern California. There are a variety of schemes involving the fuel fraud including falsifying state and federal tax forms, use of fictitious companies, known as a "burn" company, extending fuel by blending tax free additives such as transmix or alcohol, rigging fuel pumps,



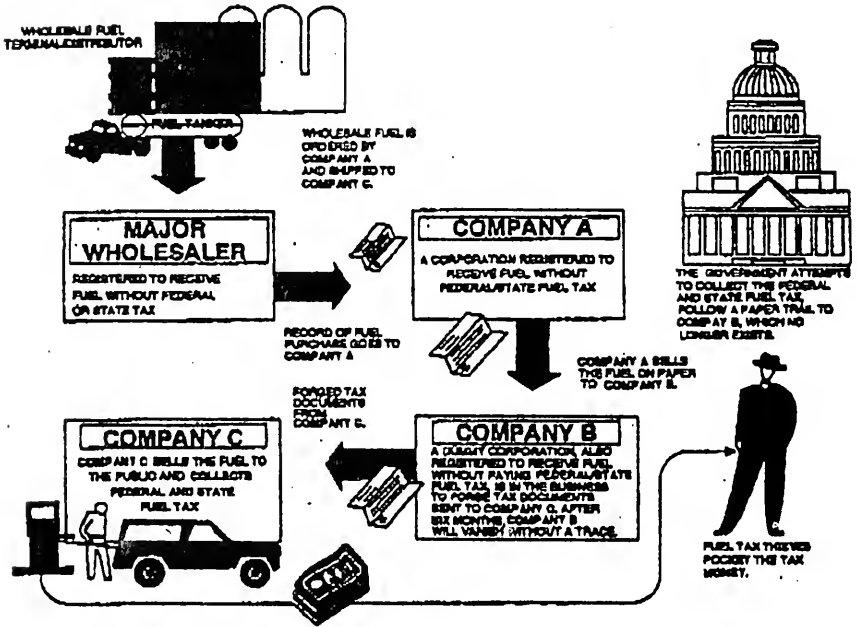
manipulating dyed fuels designated for off-road purposes, and selling lower grade fuel as a premium product.

The "daisy chain" scheme is the predominate method of fuel tax fraud. The daisy chain scheme starts with a string of companies created by Russian and Armenian organized crime groups and is designed to create a massive paper trail. In the daisy chain, a "burn" company is created and exists only on paper. By the time auditors and investigators unravel the series of transactions to determine the tax liability, the "burn" company has disappeared without a trace of records or assets. These groups are pocketing up to 50 cents per gallon in federal and state taxes which enables them to sell the petroleum products below cost. Selling fuel below cost forces the legitimate operators out of business. Often these groups force legitimate businesses out of business using intimidation tactics through kidnaping, assaults, and bombings.

On September 13, 1995, 13 Russian Armenian subjects were arrested and charged with racketeering, including multiple acts of mail and wire fraud, money laundering, extortion, and distribution of heroin and other narcotic controlled substances. The Russian Armenian group, called the Mikaelian Organization, after the group's leader and self professed "godfather" of the Russian Mafia, Hovsep Mikaelian, ran a black market diesel fuel network that supplied gas stations and truck stops throughout Southern California. They defrauded the Internal Revenue Service and the California Board of Equalization through various fraudulent schemes, by purchasing millions of gallons of diesel fuel and avoiding a huge tax liability.

The Mikaelian Organization used wholesale permits obtained fraudulently to purchase tax-free diesel fuel that was intended to be used solely for off-road purposes such as farming and construction. The fuel was then diverted and sold

# Russian Organized Crime Fuel Fraud Scheme



Source: Rochester Eyer Daily News

at numerous independent diesel fuel stations, several of which were controlled by this organization. Up to 42 cents per gallon of the federal and state tax collected at the time of sale was pocketed by this organized crime group.

This group was also involved in gaining control, through threats and extortion, of a large segment of the independent diesel fuel wholesale and retail service station and truck stop markets. Permits were also obtained by submitting fraudulent paperwork. In some cases, jet fuel, which can be purchased tax free, was added to the diesel fuel and sold at the service stations and truck stops.

According to the U.S. Attorney in Los Angeles, this group managed to avoid paying \$3.6 million in taxes in just one year. The arrests culminated a two-year joint task force investigation conducted by the Federal Bureau of Investigation, the Internal Revenue Service, the Los Angeles Police Department, the Long Beach Police Department, the California Department of Justice, the Department of Defense, and the Department of Transportation. The task force confiscated more than \$2 million in cash and property, including a BMW, Jaguar, and two Rolls Royces.

In order to counter the diesel tax frauds, Senate Bill 840, introduced by former Senator Robert Presley and former Assembly member Johan Klehs, was passed into law and took effect July 1, 1995. The purpose of the new law, which now parallels federal law, is to reduce diesel fuel frauds by imposing tax collection at a higher point (terminal level) in the distribution chain. Under the new law, taxes will be collected on tax exempt fuel by the terminal operator and refunded by the state (tax refund). A terminal is defined as a storage facility where fuel is stored and delivered to buyers. Fuel is delivered to the terminal directly from the refinery which is the first level in the distribution chain.

**Telecommunications Fraud** - Russian crime figures in the Los Angeles area are extensively involved in telecommunications fraud (cloned cellular phones). Law enforcement sources indicate that the activity is spreading to Northern California. This illegal process involves stealing electronic serial numbers of customers' cellular phones and programming them into computer chips, thus making a duplicate or clone of the telephones. While cloning has been going on for some time, it has grown rapidly and become more sophisticated as the industry has expanded. One cellular station in the Hollywood area is losing approximately \$2 million a month in fraudulent calls made on cloned cellular telephones. Armenian organized crime figures are believed to be responsible for the majority of this fraudulent activity.

**Narcotics** - ROC groups are not extensively involved in narcotics distribution in California. However, there have been significant events and cases that indicate a possible future trend in this area.

- On March 4, 1993, a Russian emigre was arrested for petty theft. The Burbank Police Department recovered two kilos of cocaine and \$2,200 in cash from the emigre's vehicle. It was later learned the emigre was also involved in shipping stolen vehicles to Russia.
- On May 1, 1993, a Russian emigre was arrested for immigration violations. Information from the Immigration and Naturalization Service indicates that the emigre was involved in smuggling cocaine from the U.S. to Russia through his import/export business in Southern California. This emigre had spent 13 years in a Russian prison.
- In February 1995, Tracey Hill, believed to be a courier for a ROC group, was arrested in Redding, California, for possession of 18 kilos of cocaine. Hill was en route to Vancouver, B.C., from the Los Angeles area.

- On May 4, 1995, seven kilos of heroin was seized from a member of an Armenian organized crime group based in the Glendale area. The heroin came from the Middle East and was intended for distribution in the United States.

**Medical/Insurance Fraud** - In Los Angeles, Russian organized crime figures have been involved in various frauds that run the gamut from staged auto accidents to false billing schemes. In 1991, in a case considered the largest of its kind, the U.S. Attorney's Office in Los Angeles charged 13 defendants in a \$1 billion false medical billing scheme that was headed by two Russian emigre brothers, Michael and David Smushkevich. The Smushkevich brothers have long been suspected of being part of a loosely organized Soviet crime syndicate operating in the Los Angeles area during the late 1980s and early 1990s.<sup>14</sup> The 175 count indictment capped a six-year investigation by federal, state, and local agencies.

Authorities reported that the brothers orchestrated a massive fraud scheme to use mobile medical laboratories to conduct unnecessary and false tests on patients. They then sent inflated and false bills to insurance companies and collected large fees. The scam eventually spread to Missouri, Illinois, and Florida. On September 20, 1994, the alleged ringleader, Michael Smushkevich was sentenced to 21 years in prison for fraud, conspiracy, racketeering, and money laundering. Smushkevich was also ordered to forfeit \$50 million in assets, pay more than \$41 million in restitution to government agencies and insurance companies victimized by the scheme, and pay a \$2.75 million fine. David Smushkevich testified for the prosecution and received probation. It is estimated that the Smushkevich brothers pocketed between \$50 and \$80 million in profits. It is believed the brothers hid their money in an unknown country.

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<sup>14</sup> Insight, October 21, 1991

**Loan Sharking** - In October 1991, two Russian organized crime figures were convicted in Los Angeles of extorting a Russian emigre businessman. The two Russian organized crime figures lent money to the victim at a 30 percent interest rate. The victim borrowed \$125,000 and over eight years had paid back \$480,000 but still owed \$120,000. The suspects threatened the victim and his family if they didn't pay the rest of the money that was owed.

**Auto Theft** - The Northern California auto theft group specializes in auto theft and operates in Sacramento, other parts of Northern California, Oregon and Washington. Younger members of this group steal vehicles while the older members operate body shops. The body shops are used as chop shops where stolen auto parts are used to reconstruct vehicles bought from salvage pools. Vehicles are also stolen, surgically stripped, and the hulls dumped where they are easily found by law enforcement personnel. These vehicles end up at salvage yards where members of this auto theft group buy the surgically stripped hull and ultimately put the vehicle back together at the chop shops. Vehicles are also bought at the salvage pools for their VIN numbers. The VIN numbers are switched to stolen vehicles.

The vehicles are then taken out of state and re-registered in an attempt to conceal or clear the salvaged title. Many of the stolen vehicles are believed to be shipped out of the country through Seattle, Oakland, and other port cities. This crime group may be using Russian organized crime groups to ship the vehicles to Europe or Russia where they are sold for substantial profits.

**Murder** - Andrey Kuznetsov and an associate, Vladimir Litvinenko, were shot to death in Kuznetsov's rented house in West Hollywood on January 26, 1992.<sup>15</sup> Kuznetsov was believed to have been the leader of a Los Angeles fraud ring with ties to Russian organized crime in New York and Russia. His widow claimed he introduced her to Russian organized crime leaders and members in Los Angeles and New York.

Los Angeles Sheriff's Deputies arrested two Russian emigres at the murder scene. Sergei Ivanov was drenched in blood and carrying a handgun. An accomplice, Alexander Nikolaev, was also arrested with Ivanov. Sheriff's deputies found the two suspects in the act of cutting off the victims' fingers to hinder identification. Found in the house along with the bodies were numerous boxes of electronic equipment, copiers, TV sets, fax machines, and stereo components. Authorities state most of the equipment was stolen or bought illegally through the use of fraudulent credit cards and check kiting.

**Money Laundering** - Russian organized crime groups in the former Soviet Union are wire transferring huge amounts of money, ranging from several thousand to millions of dollars from bank accounts located in Finland, Cayman Islands, and Europe to U.S. banks.

The source of this money is believed to come from narcotics activity, illegal trade in arms and antiques, and prostitution. Money is also stolen from the Russian government. According to a Russian newspaper, upwards of 1.5 trillion rubles (worth in excess of \$1 billion) were stolen from the state with forged documents in 1992 to 1993.<sup>16</sup>

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<sup>15</sup> Los Angeles Times, April 10, 1992

<sup>16</sup> Moscow News, April 8-14, 1994

ROC groups launder the money through a elaborate trail of fictitious companies set up in Russia. The money is wire transferred to "tax haven" countries such as those in the Caribbean Islands. Money is also reportedly wire transferred to other countries in Europe, such as Switzerland and Finland. A substantial amount of this money is ending up in U.S. banks. Most of the wire transfer activity is occurring in California's larger cities such as San Francisco and Los Angeles. It is believed that once the money has been exchanged into U.S. dollars, some of the money is sent back to Russia and is invested in lucrative financial and industrial projects, real estate, enterprises, and banks.

The Russian emigres connected to the U.S. bank accounts are opening import/export businesses in the Los Angeles and San Francisco areas. These business may be set up for the sole purpose of shipping large amounts of U.S. dollars to and from Russia.

### **Interaction With Other Organized Crime Groups**

In New York, the LCN and Russian organized crime figures have formed working relationships in areas of fraudulent fuel tax schemes. The LCN is believed to have forced the Russians to pay tribute on the profits they made on these schemes.

There is no information indicating that the LCN is exacting tribute from Russian fuel tax fraud operations in California.

Colombian cocaine distributors are believed to have formed an alliance with organized crime groups in Russia to import large quantities of cocaine into that country. These ties became evident after a 1.1 metric ton shipment of cocaine was seized in St. Petersburg, Russia in February 1993.



Criminal intelligence reports indicate Russian organized crime groups are not extensively involved in narcotics distribution in California. However, the following significant case illustrates a possible future trend and the alliances that are forming.

On September 8, 1993, several Russian crime figures were arrested in St. Augustine, Florida for conspiracy and intent to import 800 kilos of cocaine. These subjects were attempting to establish a drug distribution route from Florida to Detroit and New York. It is believed groups of Russian organized crime figures in Los Angeles and New York were part of this operation. The Russian group was dealing with Costa Rican drug traffickers and had plans to smuggle a large quantity of cocaine from Colombia to Italy aboard a vessel. The Russian group was dealing with the Sicilian Mafia in this venture.

Although at the present time law enforcement authorities are not aware of any additional ties between Russian organized crime groups in California and other organized crime groups, it is probable that formalized alliances will occur in the future.

## Tattoos

From the mid 1960's to the 1980's, approximately 35 million people were incarcerated in Soviet prisons. Approximately 28 to 30 million Russian inmates were tattooed. According to criminologist Arkady G. Bronnikov, who has studied tattoos of Russian prisoners for 30 years, inmates wore tattoos only after they had committed a crime. The more convictions a criminal received, and as the terms of incarceration became more severe, the more tattoos a convict would have.

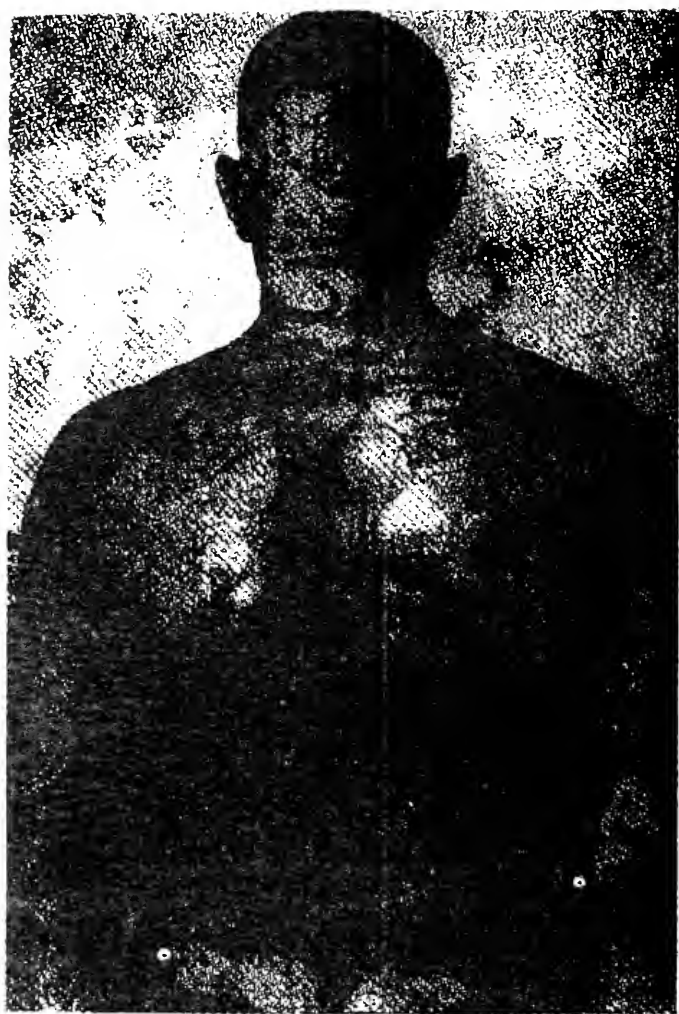
Tattoos spell out lives of crime and establish the hierarchy of inmates. According to Bronnikov, at the top of the hierarchy are "pakhans" or organized crime bosses. The pakhans use the second level of the echelon known as the "authorities," (also known as enforcers, fighters, or soldiers) to carry out their orders. The "men" are the hard laborers and are the third level in the hierarchy. The lowest category are the "outcasts." These individuals are basically slaves to the upper levels of the echelon.

The tattoos present a picture of the inmate's criminal history. According to Bronnikov, "Tattoos are like a passport, a biography, a uniform with medals. They reflect the convict's interests, his outlook on life, his world view." A prisoner with an incorrect or unauthorized tattoo could be punished or killed by fellow inmates.

Law Enforcement agencies in California and the United States can expect to see more of these tattoos as the Russian criminal element surfaces. The tattoos may be of assistance in determining the subject's criminal background and activity.



Source: *Natural History Magazine* November 1993



Source: *Natural History Magazine*, November 1993



Source: *Natural History Magazine*, November 1993

### Analysis

Among the most significant organized crime groups to come to the attention of law enforcement in California in recent years, are the Russian organized crime groups. These criminal organizations have the potential to become part of large international networks allowing them to launder money, smuggle goods, and narcotics, and import criminals to carry out specific crimes.

According to the U.S. Immigration and Naturalization Service, California is attracting the second largest number of Russian emigres settling in any state in this country. California is also experiencing a migration of Russian crime figures from the East Coast. This may be occurring because of the lack of strength the LCN has on the West Coast. The Russian organized crime groups would not have to pay a mob tax or tribute, thereby increasing their profits.

A comparison can be drawn between Russian immigration and that of previous emigrant groups who have become organized crime powers in the United States such as the La Cosa Nostra and Triads. These new Russian emigres will be a fertile source for recruitment by existing Russian organized crime groups. Many of these groups are still in an embryonic stage such as the Northern California auto theft group. However, as immigration increases, these Russian crime groups can be expected to expand and new groups will be established.

Russian organized crime groups in the United States and Russia have formed alliances with the La Cosa Nostra, the Colombian cocaine cartels, and the Sicilian Mafia. These alliances allow these groups to potentially become a dominant wholesale cocaine and heroin distribution factor in California.

As Russian organized crime continues to expand in California, it is probable they will form working relationships with other criminal groups such as the LCN, white collar criminals, or other non-traditional organized crime groups.

Because of their experience at "working the system" in the former Soviet Union, Russian organized crime groups can be expected to continue their involvement in sophisticated criminal schemes, such as fuel and insurance frauds in the United States. Russian organized crime groups specialize in targets of opportunity and take advantage of bureaucratic mazes to build their profit base. They bring with them knowledge and methods to operate complicated fraud schemes which allow these white collar criminals to flourish. While public and law enforcement attention is drawn to gangs and street violence, Russian organized crime groups will make inroads into California using these complex criminal schemes requiring extensive investigative efforts.

Law enforcement sources directly involved in the investigation of fuel frauds indicate that SB 840 will not eliminate the fraudulent schemes. Russian and Armenian organized crime groups will continue to defraud state and federal governments out of excise fuel taxes by coming up with elaborate refund schemes. It is believed that these groups will pool their resources to purchase their own terminals. Once in possession of a terminal and using falsified federal and state tax exemption forms the criminal groups can hide the true ownership of the fuel. They will continue to blend fuels, under-report volume of fuel sold, improperly dispose and store hazardous waste, and sell lower grades of fuel as a premium product. Legitimate terminal operators may be bribed or even threatened into accepting fraudulent state and federal tax exemption forms.

These criminal groups will import tax exempt fuels from other states or Mexico. Fuel will be exported out of state. Once exported out of state, the tax liability will be extremely difficult to track.

These groups discriminately use violence to intimidate competing fuel distributors to force them out of business or sell their business to the criminal groups at reduced prices. These frauds also allow the criminal groups to sell fuel below market price which forces the legitimate operator out of business or into illegal activity to maintain their livelihoods.

Members of Russian organized crime groups are violent but violence is usually employed for specific reasons such as eliminating competition and informants or punishing those who abscond with funds. They are much like the LCN and not like street gangs who use indiscriminate violence. Additionally, law enforcement authorities in California have had several confrontations with crime figures from the former Soviet Union. These crime figures are not afraid of American law enforcement or the criminal justice system and pose a potential threat to police officers.

According to law enforcement sources, drug trafficking has not yet become a major focus for Russian organized crime groups in this state. Given the profits to be made and the experience many of these groups have with drugs in the former Soviet Union, it is highly probable that this will become a growing part of their illicit operations in California. Law enforcement agencies in California have begun to make some inroads against Russian organized crime. However, more information and resources are needed to determine the scope of their criminal operations, the structure and size of their organizations, intra and interstate networks, and their international ties to organized crime in Russia.



Because there is a lack of intelligence data relating to Russian organized crime groups and their structure in this country, it is almost impossible at the present time to determine their magnitude or scope of operations. Based upon this lack of information, it is difficult to develop efficient strategies to counter them.

The law enforcement community needs to work together in order to combat this new threat. In California efforts to combat Russian organized crime are underway. Three law enforcement groups meet routinely to share criminal intelligence and information on these organized crime groups.

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## Testimony

Before the Permanent Subcommittee on Investigations  
of the Senate Governmental Affairs Committee

### RUSSIAN ORGANIZED CRIME

U.S. Customs Service  
Cooperative Efforts to Combat  
Russian Organized Crime

Statement of George Weise  
Commissioner  
U.S. Customs Service

May 15, 1996

For More Information Contact the  
U.S. Customs Service  
Office of Congressional and Public Affairs  
202-927-1750

Statement of George J. Weise, Commissioner,  
U.S. Customs Service  
before the Senate Committee on Governmental Affairs  
Permanent Subcommittee on Investigations  
May 15, 1996

Good morning, Mr. Chairman and Members of the Committee. It is a distinct pleasure to appear before you today to discuss Russian/Eurasian organized crime in the United States and the cooperative efforts between the U.S. Customs Service and the Former Soviet Union (FSU) to combat this growing problem. I would like to describe Customs' unique role and mission in this area.

One of the most critical challenges customs administrations worldwide, face now, and in the future, is the threat posed by Russian organized crime. The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union resulted in the emergence of a new threat to the national security of the United States and the world community. As a consequence of the collapse of the Soviet State, a vast supermarket of nuclear materials, other stockpiled weapons of mass destruction (WMD), and avenues for international money laundering through various criminal schemes, including drug smuggling, have become available. In response to this ominous threat, and as the geopolitical climate changes, U.S. Customs is refining and intensifying its existing strategies and developing new initiatives to deal with this problem.

Enhanced law enforcement efforts must be taken now to guard against nuclear weapons or weapons-grade material falling into the hands of outlaw nations, organized crime groups, or terrorist bands planning to carry out a catastrophic attack. Further, the United States, through the combined efforts of the law enforcement community, must enhance its efforts to deter Russian/Eurasian organized crime before it becomes well-entrenched in the United States.

Finally, we must use our collective law enforcement skills to ensure that organized crime groups do not thwart the ongoing democratic process in Russia. We cannot sit idly by while organized crime groups expand their operations. Indeed, as I stated at the outset, a breakdown in Russia's civil order will present grave national security concerns for America.

To ensure that we are devoting sufficient resources to address the expansion of operations of international organized crime groups into the United States, we must increase both our foreign liaison efforts and maintain our investigative emphasis on international criminal organizations. Second, we must continue to provide training programs which are responsive to the legitimate needs of foreign law enforcement agencies, thereby

enhancing their capabilities to meet the threats of Russian/Eurasian organized crime and the sale and diversion of nuclear materials. Several nations have already asked for our assistance. It is in the best interests of the world community that we continue these initiatives to prevent these organized crime groups from becoming more powerful and entrenched.

From a U.S. Customs investigative perspective, the main threats posed by Former Soviet Union (FSU) criminal groups, both domestic and foreign, continue to be, narcotics smuggling, money laundering, commercial trade fraud and the smuggling/sale of illicit munitions and strategic materials. Another threat that has emerged in the last few years is the increase in the number of cases involving the smuggling of stolen vehicles from the United States to the FSU.

The typical Customs investigation does not necessarily target the totality of any one particular organized crime group. Rather, Customs' unique nature, as a primary border enforcement agency, and the multifaceted and diverse set of laws that Customs enforces, usually results in investigative and enforcement activity directed at specific criminal activities of organized crime groups. Often the net result of these investigations is the disruption and debilitation of major organized crime groups with subsequent prosecution.

Since 1991, Customs' investigations, relating to Russian organized crime, both open and closed, total approximately 82 cases. Customs investigations at this time have focused on approximately 5-6 primary organizations. These cases range in content from drug smuggling cases to money laundering to export violations and commercial fraud activity. In addition, Customs, working with other law enforcement agencies, maintains an active Russian organized crime intelligence program which has documented over 2000 individuals and companies associated with criminal activity.

The growth of Russian/Eurasian organized crime groups in the United States continues to be a principal concern for law enforcement. Although the Russian Federation has received the majority of attention and press regarding the increase of organized crime activities, the other 14 new republics that were once part of the Soviet Union, and the Warsaw Bloc countries that were controlled by the Soviet Union, are all experiencing a significant rise in organized crime activities. Though now separated by country borders, many of these organized crime groups in the new republics are known to be associated with each other and have worked together in the past. Russia, the largest country in geographic area and population, is the cornerstone of stability in the area. The criminal groups comprised of emigres from the FSU function as an integral part of an international

network with known ties to the Colombian Cartels, Italian Mafia, Israeli organized crime, and other international organized crime groups.

Criminal cells/networks comprised of emigres from the FSU operating in the United States have been identified by many different terms, "Russian Mafia," "Russian Organized Crime," "Organizatsiya," "Malina," "Mafiya," "Odessa Mafia," and "Soviet Criminal Network." According to various sources, some of the cells/networks are aligned with specific leaders, and others by ethnic background, or a particular criminal activity.

The true organizational structure and number of Russian/Eurasian organized crime groups operating in the United States is unknown at this time. Many in law enforcement believe that the groups are organized along ethnic, religious or geographical alliances. However, this theory is not etched in stone, as some groups may be organized strictly for profit.

Based upon available intelligence sources and de-briefings of knowledgeable confidential sources, it would appear that Russian organized criminal groups operating in the United States is not structured in the same manner as traditional organized crime syndicates, i.e. there is no criminal hierarchy or firm chain of command. The complexion of this criminal activity will change in the foreseeable future with the influx into the United States of known crime figures who are members of established crime families throughout the FSU.

Russian organized crime groups are also using the services of commercial information companies in an attempt to gather information on government and law enforcement officials involved in the investigation of Russian organized crime. Clearly, this poses a potential threat to law enforcement officers, since information may include details such as address and telephone numbers, identities of family members, credit card information, vehicle ownership, etc.

The U.S. Customs Service, as a protector of our borders, is the first line of defense in United States law enforcement. Our mission will be seriously challenged by the narcotics smuggling, money laundering, and commercial fraud threats, as well as the smuggling/sale of munitions and strategic materials. Throughout the United States, informal task forces have been established by Customs, to investigate specific FSU emigre criminal cases. The preferable way to deal with this issue, in the areas of concern to the United States, would be through the coordinated exchange of information, better intelligence collection and by strengthening cooperation between law enforcement agencies. Law enforcement should target individuals and companies, and investigate crimes committed by FSU emigre criminal groups, utilizing laws that have been used successfully against other

groups such as the traditional Mafia, Cartels and other high profile criminal organizations.

**FSU LAW ENFORCEMENT  
COOPERATION/ASSISTANCE**

**Customs Mutual Assistance Agreements**

The United States currently has Customs Mutual Assistance Agreements (CMAA's) with 26 nations. These are Executive Agreements negotiated with other nations considered to be critical for customs law enforcement cooperation. These agreements deal with the exchange of information and the enforcement of prohibitions, restrictions, or controls. CMAA's provide a basis for sharing information and coordinating operations in all areas of enforcement.

In the former Soviet Union, we currently have agreements with Russia (1993), Belarus (1994), and Ukraine (1994). We are currently in the process of negotiating agreements with Kazakhstan and Kyrgyzstan. We also have agreements with almost all of the European Union states, as well as, Poland, Hungary, the Czech Republic, Finland and Sweden.

**Customs Attache in Moscow**

In an effort to capitalize on the growing working relationship between the U.S. and the Russian Federation, Customs has received approval to permanently place one agent in Moscow to work closely with Russian Customs and law enforcement officials. The position has been filled with a qualified Russian speaking agent. Prior to this position being filled, a Customs agent was temporarily assigned to Moscow for the past several months, while our Customs Attache in Bonn continued to assist with investigations in Russia, Ukraine and some of the other Newly Independent States (NIS). The results thus far are impressive. The cooperation we have received from Russian Customs and the Russian Federal Police has been outstanding.

U.S. Customs has had contact with its direct counterparts in the former Soviet Union and the Russian Federation for over 20 years. Even under the Soviet system, relations were cordial and a Customs Mutual Assistance Agreement (CMAA) was concluded. Since 1992, relations with the State Customs Committee of the Russian Federation have been greatly expanded and intensified. A new CMAA was concluded in 1994 and signed during a summit meeting between Presidents Clinton and Yeltsin in September of that year. The Director General of Russian Customs, his senior staff and the 12 directors of their regional customs administrations have all visited the United States and several reciprocal visits have occurred or are being planned. Russian Customs sent representatives to our seminar on Nuclear Smuggling



in September 1995, and they also sent representatives to a U.S.-Russian Preventive Enforcement Technical Workshop in March of this year.

At the working level, Russian Customs routinely shares information and requests investigative assistance through our Customs Attache office in Bonn, Germany. The assistance of Russian Customs in Moscow has enabled us to expand our level and breadth of contacts in Moscow to the Procurator General, other law enforcement agencies and the Interior Ministry in Russia (MVD). In general, U.S. Customs jurisdiction is similar to that of our Russian colleagues, but our investigative authority is much greater. Russian Customs efforts at establishing an investigative or "enforcement" component are underway, but at a nascent stage of development. The most recent visit of Russian officers to the U.S. involved three senior officials responsible for providing security at border posts, investigating smuggling between the ports of entry and responding to threats against customs employees and facilities.

The Russian Customs Service has experienced phenomenal, recent growth. While it was a force of only 6,000 officers in 1991, it may comprise as many as 40,000 by the end of 1996. Our working relationship is expected to grow significantly with the opening of an office in Moscow later this year, and, we believe, that Russian Customs involvement in our non-proliferation interdictions and investigations will be productive in the near future. Both sides view such work as a significant national priority.

#### **Training Initiatives**

Our international training efforts stem largely from our role as the lead U.S. law enforcement agency for investigations and border interdiction in the area of drug smuggling, international money laundering, trade violations, and export controls. U.S. Customs coordinates its training in the FSU and Eastern Europe through the Department of State Interagency Working Group (IWG). U.S. Customs has been conducting training and technical assistance in these areas since the early 1980's. For instance in the area of export controls we have provided this type of training to at least 35 countries on four continents and to more than 1,000 customs and police officers. Most of our training efforts relate to drug smuggling, international money laundering, trade violations, strategic violations, and international stolen vehicles.

Our most recent training was the U.S./Russia Preventive Enforcement Technical Workshop. This program built a basis for future export enforcement cooperation by familiarizing Russian export enforcement managers with the United States Government's preventive enforcement programs, measures, and methods. It

focused on the challenges and needs of effective export enforcement, in regards to organized criminal enterprises. We discussed techniques and regulations and laws used by U.S. government agencies to meet export enforcement needs and the role of interagency and international cooperation in detecting and interdicting illegal exports. The training included discussions in Washington, D.C. and visits to export enforcement field operation sites in Ft. Lauderdale and Miami, Florida. The Russian attendees spent two days observing actual enforcement operations at the different field offices of the Department of Commerce's Bureau of Export Enforcement, the U.S. Customs Service and the U.S. Attorney. The training featured presentations and discussions by the U.S. Customs Service, Commerce's Export Enforcement, Export Administration, Treasury Office of General Counsel, the Federal Bureau of Investigation, and the Departments of State, Treasury, Energy and Defense on each of their contributions to export control. The participants then discussed the next steps needed to develop cooperative preventive enforcement to combat organized crime.

Historically, Russian, and the former Soviet Customs, relied heavily on academic training for all new employees. New trainees were expected to attend their Customs Academy for two to four years before actually beginning their jobs, taking such courses as customs laws and regulations, and financial management. Today, with the massive hiring program undertaken by Russian Customs, this type of long term training does not meet their needs. For this reason, we have been trying to assist them in developing shorter more flexible training programs that can be given at field locations and stressing the use of practical exercises. Last September, U.S. Customs conducted a Train-the-Trainer program in St. Petersburg, Russia. The overall objective of this program was to further develop Russian Customs training infrastructure by increasing the number of qualified training instructors. This specific course focused on training related to border interdiction. As I speak, another Customs training team is preparing to travel to Moscow this weekend to conduct a similar Train-the-Trainer course. A third Train-the-Trainer course has been planned to be delivered in Vladivostok later this year.

#### **AREAS OF INVESTIGATIVE CONCERN NARCOTICS SMUGGLING, PRODUCTION and TRANSHIPMENT**

The Russian Federation and many of the other new republics have experienced a dramatic increase in drug use and related crimes. There also has been an enormous increase in the amount of poppies cultivated in a number of the new republics, which have also become transshipment routes for narcotics destined for Western Europe and the United States. Intelligence indicates that FSU organized crime groups are significantly involved in narcotics trafficking. Although arrest statistics and seizures

are low pertaining to FSU emigres' narcotics smuggling activities, past experience has proven that this group has the capability to adapt to any illegal act that generates a profit.

Further, based upon overseas seizures, intelligence, source information and newspaper articles, the FSU (15 new republics) and East Bloc countries have become a major sales market, transshipment route, storage area and production source for many drugs destined for Western Europe and the United States. Heroin from the Golden Crescent and Golden Triangle, is transshipped through the FSU to the United States. In August of 1995, two Polish nationals attempting to smuggle 100 kilograms of heroin into Germany were arrested by German Customs. This is the largest heroin seizure ever made, in what was formerly East Germany.

Another area of major concern is the vast commercial/military shipping fleet of the FSU. Italian authorities recently seized approximately 600 kilos of cocaine hidden inside pallets onboard a Russian commercial freighter. It is believed that this is just one of the freighters under the control of the Russian drug mafia. There are also reports that sailors from the Far Eastern Pacific Fleet are returning from Vietnam with hundreds of kilograms of opium and cannabis.

One should not be deceived by the scarcity of arrests and seizures of narcotics in the United States related to FSU criminal groups. Intelligence indicates that developed FSU criminal groups have vaulted right into the lucrative narcotic business. FSU criminal groups are using corrupt FSU officials, porous borders, import/export companies, transportation companies, etc., to help distribute cocaine across Europe where the profit margin is much greater.

Customs investigations have demonstrated that FSU criminal networks have the capability and organizational skills to mount successful drug courier operations. Evidence that FSU criminal groups in the United States were developing more extensive ties to international drug smuggling began to emerge in early 1991. Since that time Customs has disrupted two separate heroin trafficking rings involving FSU networks.

The first case developed in part from intelligence passed to DEA from confidential sources indicating that U.S. citizens of Russian and/or Polish background were smuggling heroin into the United States. The subjects were allegedly arriving at JFK airport aboard commercial flights originating in Poland or Russia. The heroin itself originated in Thailand and was being transported to Eastern Europe for shipment onward to the United States. Concurrent with this intelligence, DEA purchased roughly half a pound of heroin from two members of the FSU smuggling

organization.

This joint investigation between Customs and DEA eventually led to the arrests of 18 people. An important aspect of this case was not only that it demonstrated the capabilities of FSU groups to engage in heroin smuggling, but also demonstrated their connections to traditional organized criminal groups who were to ultimately receive the heroin and distribute it for the FSU group.

More recently, Customs tracked and disrupted an FSU organization that was shipping heroin to the U.S. using both mail and couriers. The investigation itself began when two couriers of Russian extraction were arrested at JFK for smuggling a total of about seven pounds of heroin. Both couriers, arriving from Poland, had strapped the heroin to their bodies. Each individual indicated that he had successfully smuggled a similar quantity at least once in the past. Operating very similarly to the case listed above, this organization is alleged to have shipped as much as 2 kilograms of heroin a month to the U.S.

The organization used a small but effective group of couriers who retrieved the heroin in three different locations: Poland, Belgium, and Israel. In each case, the heroin was shipped to these locations from Southeast Asia where the FSU organization had supply connections. The heroin was generally shipped to the transit points packed inside television tubes and stuffed animals. The couriers, who body packed the heroin, would return to the U.S. through three points: New York, Boston, and Chicago. Once in the U.S., the heroin was distributed to various individuals responsible for selling the drug, including Hispanic and traditional organized crime elements. During the course of the investigation, at least four of the organization's couriers were apprehended as well as a large portion of the group's members. (See Chart)

Two variations of the group's modus operandi included sending couriers to Israel, where the heroin was passed to them. The couriers then returned to Canada instead of the United States. Once in Canada, the heroin was placed on another courier who was concealed inside a car which was driven across the border into the United States. The other variation used direct mail shipments to the U.S. from Brussels.

In addition to heroin, citizens from the FSU have been detected with cocaine, steroids and other illegally obtained prescription drugs. More recently, opium shipped in the mail from the FSU has been detected at our borders.

Heroin, hashish and cannabis are being transported overland across the Baltic route to Europe. A significant portion of this contraband is then transported to the United States by couriers

or commercial cargo.

With the arrival of a capitalist economic system in the FSU a large number of chemists are now unemployed for the first time in their lives. A number have turned to the production of synthetic narcotics to generate an income. Russian law enforcement authorities fear that Russia has the potential of becoming a major center for the manufacture of synthetic narcotics.

The Customs Service established that some Russian/Eurasian organized crime groups are becoming involved in trafficking of controlled substances in the United States. Furthermore, based on the drug trafficking activities of Russian/Eurasian organized crime groups in Eastern and Central Europe, available indicators suggest that the involvement of Russian/Eurasian organized crime figures in drug-related crimes in the United States will increase. With the growing frequency of travel between Russia, the rest of Europe, and the United States, the United States has become increasingly available to Russian/Eurasian organized crime groups as a site for criminal activities, including drug trafficking.

For example, as illustrated in the attached chart, the framework for the establishment of Russian/Eurasian drug trafficking networks into the United States is already in place. Using existing Russian/Eurasian organized crime contacts and activities in the United States, drug trafficking by those groups could rapidly increase in the near future. Some Russian/Eurasian criminals currently in the United States, or with influence and contacts in this country, are adept in the international smuggling of a variety of contraband. That expertise obviously can be used to facilitate the large-scale involvement of Russian/Eurasian organized crime groups in American drug trafficking.

FSU criminal groups continue to use the establishment of front companies in the United States and throughout the world to cleanse illicit/stolen money from the FSU. The companies are also used for other related organized criminal activities. They are used to obtain visas fraudulently for many FSU criminal figures seeking to enter the United States. Once in the United States these individuals then concentrate on expanding their money laundering and other criminal activities.

#### VISA FRAUD and MONEY LAUNDERING

The involvement of front companies to file suspect employment based non-immigrant and immigrant visa petitions for known and suspected FSU criminal figures continues to increase. According to the U.S. Department of State, in Russia, visas appear to be a potentially major loophole through which companies

can be established in the United States for the purpose of money laundering and other organized crime related activities. The U.S. Department of State's Bureau of Diplomatic Security, which has statutory authority in visa fraud cases, and INS have a substantial number of investigations targeting such companies.

Although this is not a new phenomenon, the increase in the number of companies and individuals involved is staggering. Historically, FSU criminal groups/figures have been known to be excellent white collar criminals who set up numerous companies to help masquerade their frauds. An example of this was a company called M&S INTERNATIONAL which was based in Antwerp, Belgium. M&S was owned by Rachmiel BRANDWAIN, who was a close associate of Boris NAYFELD, a well known FSU criminal who operated out of Brighton Beach in Brooklyn, NY. According to the attached copy of the October 2, 1995, Newsweek article, in the late 1980's BRANDWAIN was the middleman who helped corrupt Soviet Army officials stationed in East Germany siphon more than a billion dollars in illegal deals. He used his companies and connections to assist the officers in hiding the illegal millions in offshore companies and bank accounts. BRANDWAIN acknowledges his role in this scheme. Subsequently, Boris NAYFELD and a number of people associated with BRANDWAIN and his companies were arrested for smuggling heroin into the United States.

This panoply of criminal activities will complicate Customs efforts in detecting illicit funds laundering/drug smuggling networks while easing the fraudulent entry of suspected FSU organized crime members into the United States.

Currently, the Customs Service is investigating money laundering activities centered around front companies that have been set up in the United States to cleanse illicit/stolen money from the FSU. The FSU authorities have provided the initial information to start the investigations.

#### Trafficking In Radioactive Materials

The theft and sale of nuclear materials from the FSU is of great concern to the entire world. The world's stability depends upon the control of nuclear weapons and technology. If terrorist groups or nations like North Korea and Iraq are able to purchase nuclear materials or technology from disenchanted scientists and technicians from the FSU, and use them to fabricate nuclear weapons, the nature of the threat facing the United States and our allies would increase significantly. FSU criminal groups have little regard for world stability.

According to the attached copy of the October 23, 1995, U.S. News & World Report article, an illicit deal to sell beryllium was orchestrated by a trading firm with ties to Russian organized crime in the Sverdlovsk region of Russia in early 1992. The

beryllium was shipped from a restricted nuclear research facility near the city of Obninsk to Moscow, then on to Yekaterinburg, in the Sverdlovsk region. It was then transported to Vilnius, Lithuania. The probability that this type of movement could take place without the participation of corrupt officials is unlikely.

Prior to the seizure, an Austrian firm was prepared to pay \$2.7 million for the beryllium. It was reported that the firm had lined up a buyer in Zurich, who was willing to pay \$24 million for the shipment. This buyer was said to represent a Korean interest. The beryllium had caused a brief gang war in Vilnius, where a local crime group tried to extort money from this smuggling operation, and resulted in ten men being killed.

The theft and sale of nuclear materials from the FSU continues to be of great concern to the entire world. It has already been documented on several occasions that criminal groups from the FSU have taken advantage of this situation and attempted to smuggle and sell these materials to the highest bidder. The mind set of FSU criminals is to acquire money, which in the FSU is power, and they will go to any extreme to achieve their goal.

A growing problem related to the dramatic growth of criminal activity emanating from Eurasia and Eastern Europe is that of increased criminal trafficking of low-enriched nuclear materials and related radioactive materials. Information received by Customs from a variety of sources indicates that the theft and smuggling of these materials from the former Soviet Union and Eastern Europe are appearing with increasing frequency in Germany and elsewhere.

Europe first began to experience multiple incidents involving illicit low-grade nuclear materials in 1991. These incidents suggested that strategic materials from sources in the former Soviet Union and from the former Eastern Bloc countries were being illegally obtained, smuggled and illicitly offered for sale in Western Europe. An example of this is our undercover investigation into the illegal sale of nuclear-grade zirconium to Iraq. This case is currently at the prosecution stage.

There also are serious concerns over the potential for the illicit acquisition and trafficking of a wider range of nuclear and/or radioactive materials which are more commonly available, as well as commercially useable and saleable substances, such as cesium, osmium, radium and others. Included in this category are plutonium and uranium, in quantities and at isotopic purity levels well below weapons-grade. Materials in this category can be more easily obtained by theft from nuclear, industrial and research facilities, than can weapons-grade material. An example of this is our investigation of stolen and smuggled non-radioactive isotopes by our Detroit office.

In evaluating the current threat posed by this illicit trafficking in nuclear and nuclear-related materials, it is necessary to distinguish between what has been offered for sale on the black market, and what is actually available for purchase as determined through law enforcement investigations. During 1992 and 1993, suspected bogus representations surrounding these offers to sell were numerous, and in 1992 and 1993, there were confirmed illicit transactions in Europe which involved highly enriched uranium and plutonium.

#### CONCLUSION

We live today in a global community. Technology, communications, and the availability of rapid travel enable organized criminals to conduct international criminal schemes on a global scale. The U.S. Customs Service has undertaken a number of initiatives with the dual objectives of both seizing the contraband and identifying/arresting the perpetrators. Through the continuing collective efforts of the Departments of Treasury, State, Justice, Defense, Energy, Commerce, the Intelligence Community, and our foreign counterparts, Customs will continue to promote global security through enhanced border initiatives.



## ATTACHMENT I

## INVESTIGATIVE EXAMPLES

The following examples attempt to illustrate the nature, complexity and diversity of organized crime cases that Customs investigates as a matter of priority and mission.

FSU criminal syndicates are active in at least four areas directly relevant to Customs enforcement programs: drug smuggling, money laundering, commercial fraud, and the smuggling of other illegal contraband, including weapons, strategic minerals, precious metals, icons, and stolen vehicles.

## Heroin Smuggling

During June, 1991, New York Customs Agents initiated an investigation into heroin smuggling activities as a result of the arrest of two Russian couriers who arrived at JFK international airport with an aggregate amount of 3,209 grams of heroin secreted in body girdles. The heroin originated in Thailand. This investigation disclosed the existence of an extensive network of heroin couriers, comprised of Russian, and former Russian nationals who were entering the United States at New York, and Boston on a bi-monthly basis.

This investigation provided substantial insight into the insular world of drug trafficking by FSU criminal enterprises by illustrating the complexity of investigating an unique divergence of both culture and language. With the advent of heroin's resurgence in America, this investigation ultimately dismantled a network of heroin couriers who possessed the potential to supply a major portion of the eastern coast of the United States.

The arrest of the two couriers ultimately evolved into a five year investigation which revealed the smuggling of heroin via individual courier, and the international mail system. What remained consistent throughout this investigation was that the consignee was always within the confines of the Russian emigre community of New York city.

This joint Customs/DEA investigation ultimately concluded in 1995 with the arrests and convictions of fourteen defendants and the seizure of 5,922 grams of heroin. While this single investigation does not infer that all Russian travelers or emigres in the United States are involved in these criminal activities, the distinct insularity of the Russian community within the United States in terms of cultural and social norms greatly aids in the concealment and expansion of these activities.

## EXPORTING OF STOLEN CARS

There are a number of ongoing Customs stolen car export cases throughout the country involving FSU emigres. A good American car is selling anywhere from two to three times its value in the FSU. Law enforcement has determined that emerging organized crime groups utilize the stealing, illegal exportation, and sale of stolen vehicles as a relatively safe way to obtain capital to finance their other criminal ventures, drugs, weapons, etc. The current cars of choice are four wheel drive vehicles. Several Customs investigations from around the country are currently underway into the illegal exportation of stolen vehicles from the U.S. to FSU countries. The minimum value of the vehicles, luxury cars and construction equipment, recovered by Customs so far, totals \$25,000,000, and we have made 77 arrests.

One case of particular interest is a SAC Chicago case. A group of FSU emigres were shipping vehicles that were stolen in New York, driven to Chicago and secreted inside containers and exported to the FSU. A number of arrests have been made in this case. One of the individuals arrested was Ritchardas VASILIAVITCHIOUS believed to be the organizer/leader of this group. VASILIAVITCHIOUS was once the bodyguard for Monya ELSON, but they had a disagreement, and VASILIAVITCHIOUS was shot and wounded in New York and fled to Chicago. In the New York area, other FSU emigre stolen car groups have been dismantled by Customs and local authorities.

Agents of the United States Customs Service, SAC Miami, and detectives of the Metro-Dade Auto Theft Task Force investigated Paulo and Nikita KOBIAKOV and other members of a group involved in the exportation of stolen vehicles to Venezuela, Ecuador and the Dominican Republic.

The investigation into this group was initiated during November 1994, with the recovery and seizure of stolen vehicles which were being exported from Port Everglades to La Guira, Venezuela. Agents and detectives gathered information on several seizures and events which were eventually linked to the KOBIAKOVs and two Florida corporations.

On January 20, 1995, as a result of the investigation, Nikita KOBIAKOV was arrested and charged with dealing in stolen property. Once Nikita was freed on bond he fled the United States and took up residence in Venezuela. Paulo KOBIAKOV then took over the U.S. operations while Nikita coordinated distribution of the stolen vehicles in South America. Due to the lack of effective export controls in South America it is believed that a number of the vehicles were shipped to Europe and possibly the former Soviet Union in a money laundering and narcotics smuggling venture.

During October 1995, information provided by a confidential

source and the surveillance of two warehouses resulted in the seizure of vehicles and the identification of several violators. While tracking down undeveloped leads, more and more information pointed to the involvement of the KOBIAKOVs and their Florida corporations.

This information was presented before a Grand Jury in the Southern District of Florida, resulting in the indictment of Nikita and Paulo Kobiakov and 10 members of the group for violating and conspiring to violate Federal law.

#### Fraudulent Avionics and Radio Parts Case

Several investigations involve the sale, export and/or diversion of weapons, military hardware, critical high technology, precursor chemicals for biological warfare, military aircraft parts, and assorted missile systems. Some of these investigations are long-term in nature and involve complex international conspiracies that affect our national security and/or related foreign policy objectives.

One example to illustrate this type of investigation is from our Resident Agent in Charge (RAC) Newark office. According to the U.S. Navy, the Customs Service saved them millions of dollars by the success of our investigation. If not for the execution of search warrants, several product components would have been delivered to them for installation within our national defense systems.

While this investigation is not a typical "Russian Organized Criminal activity," in that there is no traditional "mafia hitmen", or "legbreakers"; it does involve a continuing criminal enterprise. The violators were from Russia and Iraq. The material was manufactured in the Ukraine by unemployed Russian technicians, and the method of payment utilized indicated money laundering by front companies. If left unchecked this "enterprise" could very well have expanded into another Russian Organized Criminal Group operating within our country.

Customs successfully completed a wide ranging fraud investigation involving a Newark, New Jersey based company that was defrauding the U.S. Department of Defense by importing Russian made avionics, satellite communications, radar, and radio components and selling the equipment to the United States under military contracts as U.S.-made parts and equipment. Two defendants, who are emigres from Russia and Iran, have been indicted for allegedly defrauding the Departments of the Army, Navy and Air Force. In addition to the fraudulent imports, the U.S. company was exporting U.S. defense technology and data to Russia and Ukraine without an export license, in order that companies there could manufacture the avionics and equipment to U.S. specifications. Defense contracting regulations prohibit

the manufacture of U.S. weapons systems components by overseas companies, unless specifically authorized by the Department of Defense.

#### New York Zirconium Case

Undercover Customs agents initiated the seizure of 7 tons of nuclear-grade zirconium being shipped from Ukraine to Iraq through the U.S. This resulted in three arrests.

In the course of a covert investigation, Customs agents acting in undercover capacities effected the arrests of three individuals who were attempting to ship large quantities of nuclear-grade zirconium to Iraq in violation of the United States and United Nations sanctions against Iraq. During the course of this investigation, the defendants delivered five tons of zirconium, believing it was destined for Iraq. An additional two tons of zirconium were delivered to U.S. Customs undercover agents in Cyprus, ostensibly en route to Iraq. This shipment was detained by Cypriot authorities, and will be returned to New York as evidence in the trial.

Three defendants were arrested on June 8, 1995, and the above mentioned zirconium was seized. The investigation is continuing with the assistance of the U.S. Customs offices in Rome, Bonn, and Milan. Law enforcement agencies in Germany, Italy, Cyprus, and states of the former Soviet Union are also cooperating in this investigation.

According to the defendants, the source for the zirconium was a General in Ukraine. If the source of the zirconium is indeed Ukraine, this would be the first time weapons-grade material from the FSU has been seized in the United States.

#### Detroit Isotope Case

Another investigation involves the seizure of non-radioactive isotopes that were illegally removed from Russia to the U.S. The isotopes have a value in excess of \$350 million dollars.

In February 1995, the Royal Canadian Mounted Police in Toronto, Ontario, requested that U.S. Customs assist in locating more than five hundred (500) units of non-radioactive isotopes that were alleged to have been stolen from the Russian Federation, shipped into Canada, and then imported into the United States, by Russian organized crime figures.

On February 3, 1995, the SAC Detroit executed Federal search warrants at the warehouse and recovered the stolen isotopes.

The wholesale value of the isotopes has been placed at \$20 - \$30 million with a retail value of between \$300 - \$350 million dollars. A coordinated investigation is being conducted by the SAC Detroit along with the Royal Canadian Mounted Police and the Central Unit for Organized Crime/Prosecutor General Office, Russian Federation.

#### MONEY LAUNDERING

In recent months a number of FSU emigres have been arrested/stopped by Customs for failure to declare currency/monetary instruments. In one case, the suspect had \$90,000 in U.S. money orders on his person. This is a typical method used by many money laundering groups. Another individual was stopped with \$170,000 in cash. He claimed that it was the payroll for a Russian baseball team known as the Red Devils that were in Florida. This individual has been connected to a FSU emigre who was arrested by Customs attempting to smuggle marijuana into the United States secreted inside caviar cans.

As stated previously the FSU is facing a serious threat regarding the illegal export of funds/assets to other countries. While some legitimate capital flight is involved, there is significant indication that many of these funds originate from fraud, theft and organized crime activities. One technique believed being used, is that money derived from criminal activity is handed off to couriers at various foreign airports and delivered to Moscow. There the money is legalized through commercial banks, and transferred to European banks in accordance with false contracts between Russian and foreign firms. The money is also laundered by purchasing prime real estate throughout the world, in such places as, England, Monte Carlo, French Riviera, and the United States.

In many parts of the United States a number of entrepreneur class criminals have been investing in real estate with cash purchases from \$200,000 condominiums to \$2,000,000 for parts of shopping malls. Another way the money is laundered is the legitimate purchase of commodities that are then exported to the FSU and sold at an enormous profit. In the early stages of the collapse of the Soviet Union it was reported that Russian organized crime groups in the United States sold rubles for U.S. currency to the Colombian Cartels. The Cartels then bought gold, oil and strategic metals through front companies in Russia. The goods were then sold on the world market, effectively laundering the Cartels' money and providing the Russian organized crime groups with U.S. dollars.

To provide another example, on July 15, 1994, U.S. Customs agents in Seattle received information that a Russian male, who was an Organized Crime figure from Vladivostok, boarded the Russian vessel KAPITAN MAN, in Tacoma, Washington in June 1994, on three occasions. The subject was identified as being involved in criminal activity in Russia.

Based on this information a Customs Treasury Enforcement Communications System (TECS) record was created. On November 4, 1994, Customs inspectors at SEATAC International airport detained the subject for failure to declare United States currency. A search revealed he had \$20,209 in United States currency. Customs notified the Department of State of the information concerning the subject and requested that if the subject applied for a visa for future travel to the United States it be denied. Since that time Customs has been advised that the subject had been denied re-entry into the United States, after the American Counsel General-Vladivostok confirmed the subjects' prior status as the godfather of the Vladivostok mafia, and involvement in a prior homicide. The subject is allegedly attempting to get a Russian passport under a new name so that he can re-enter the United States. State Department has been advised of this information.

#### STOLEN PROPERTY AND MONEY LAUNDERING

Another scheme utilized by Russian organized crime groups to finance their operations is the purchase of merchandise in our country by checking accounts with insufficient funds.

On November 21, 1995, Sergey Aleksandrovich GARKUSHA was arrested as he attempted to depart Seattle-Tacoma International Airport via Aeroflot Airlines destined for Moscow. GARKUSHA was in possession of merchandise valued at over \$50,000, purchased with checks from a closed bank account. It was later determined GARKUSHA purchased merchandise from EUROPE DISTRIBUTORS, paying by check from an account bearing non-sufficient funds. GARKUSHA was arrested.

GARKUSHA was subsequently prosecuted and convicted in King County District Court in Washington. GARKUSHA was sentenced to credit for time served with partial restitution. GARKUSHA was remanded to INS custody and was deported from the United States on January 17, 1996.

#### ICONS

The illegal export of icons from the FSU by organized crime groups is also another problem being addressed by U.S. Customs. According to Russian authorities, the icons are not allowed to be exported out of Russia, except with permission for exhibition purposes, because they are considered a national treasure. Every person entering or leaving Russia has to fill out a customs declaration form which contains a line item that specifically addresses the requirement to declare the possession of icons.

Icons depict religious figures of the Russian Orthodox Church and were commissioned and painted primarily for churches. They may depict any one of a hundred or more persons, and may vary stylistically (particularly in the facial features) by the artist or geographic region where they were painted.

After the Russian revolution in 1915, churches were looted and destroyed. Under communism all religious practice was prohibited and all church/religious property became the property of the state. With the fall of communism and the breakup of the former Soviet Union, religious worship was no longer against the law.

The Russian Orthodox Church is now recognized as a main force in maintaining the Russian heritage and culture, and all icons are considered to be property of the Church. Most icons are kept in museums or churches and are well protected. A commission has been established to register icons with a unique number; all icons that do not have a number are turned over to the Church.

Icons were being sold in Russia several years ago (before the fall) for approximately \$200 each. Estimates are that the icons would sell for up to \$2,000 currently.

Another case occurred on November 11, 1993, at Cincinnati International airport. Three Russian icons were seized after inspectors discovered a false-sided suitcase. The three icons examined were of very good quality, did not have a registration number on them, and are considered as cultural heritage items belonging to the Russian Orthodox Church. These icons were returned to the Russian authorities.

#### OTHER ORGANIZATIONS and INTERESTS

There are various estimates on the number of Russian groups operating in the United States. Some estimates range from 3-4 to approximately 24 different organizations. The following are some of the major organizations in which Customs maintains an ongoing investigative and law enforcement intelligence interest in:

Most of Customs efforts have been directed at the ORGANIZASIYA which is based in New York but which has cells on the West Coast, Denver, Colorado, and in the South (Miami). Overall, there is evidence of Russian criminal activity in New York, California, Florida, Illinois, Maryland, Michigan, Ohio, Oregon, Pennsylvania, Washington State, Massachusetts, and Colorado. The chart behind me illustrates several FSU Organized crime groups and their areas of interest.

The ORGANIZATSIYA. This group is comprised of Russian, Ukrainian, Armenian and Georgian criminals within the Brighton Beach area of Brooklyn, New York. The ORGANIZATSIYA has been in operation in the United States since the middle 1970's with the first influx of Jewish emigres from the FSU. The true structure, size and operational components of the ORGANIZATSIYA are not entirely known since there is limited available intelligence, investigative and source information. The composition of the ORGANIZATSIYA appears to be separate cells that cooperate in situations of mutual interest and shift alliances to meet

particular needs.

Finally, the BRANDWAIN Group is based in Brussels, Belgium. BRANDWAIN is reported to be the godfather of Russian criminal exiles in Belgium. He is listed as the president of various corporations, many of which have commercial linkages to the United States. He is also believed to be involved in narcotics trafficking, money laundering, extortion, murder and the smuggling of stolen autos/parts into the FSU.

In the United States, there are a variety of Estonian, Lithuanian and Armenian groups which are engaged in organized crime. Numerous investigations have been initiated regarding organized crime from the former Soviet Union. These cases have been centered in Philadelphia, Pennsylvania; California; Connecticut; and New York.

Trade fraud cases connected to FSU emigre crime are beginning to grow. Recent cases have involved marking violations on polished diamonds, uranium, caviar, and pianos.

U.S. Customs weapons smuggling cases to date have largely been concerned with relatively low-level military armaments and materials such as AK-47 assault rifles, plastique, and night vision devices.

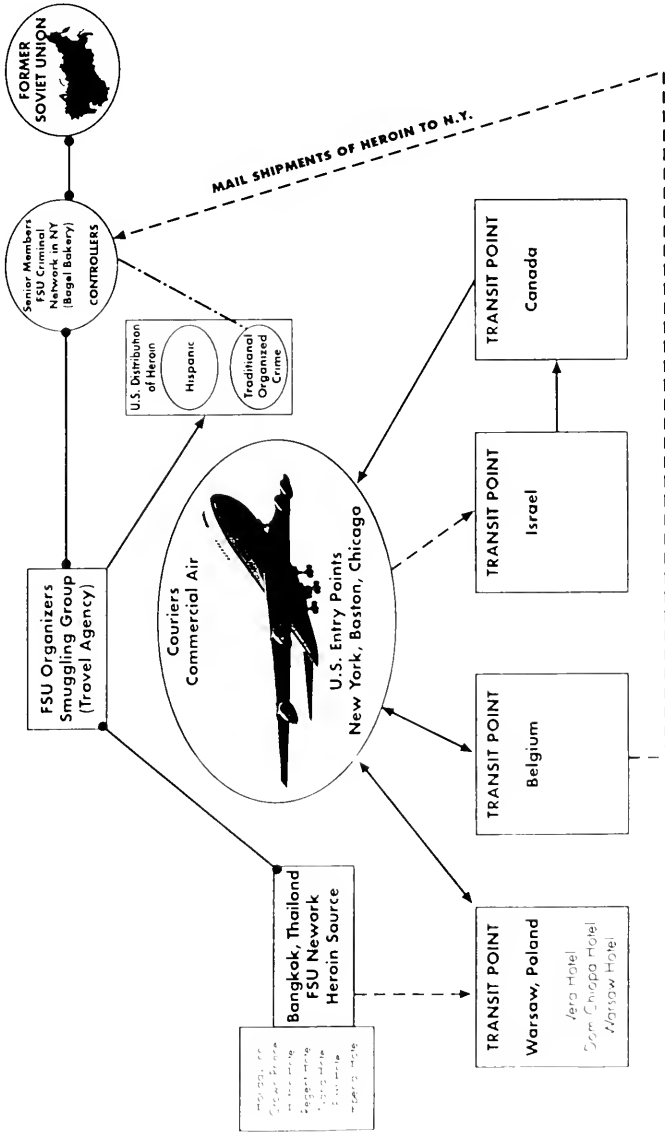
#### FUGITIVE ISSUES

Currently, we do not have any major fugitive problems relating to Russian organized crime. However, we do have several fugitives that are associated with Russian Organized Crime. The Customs crimes that they have been indicted for include, money laundering, vehicle theft, fraud, arms smuggling, and narcotics smuggling. With the projected rate of Russian organized crime in the United States and their projected involvement in trans-national crimes, it is envisioned that fugitive issues will become more prevalent in the near future.

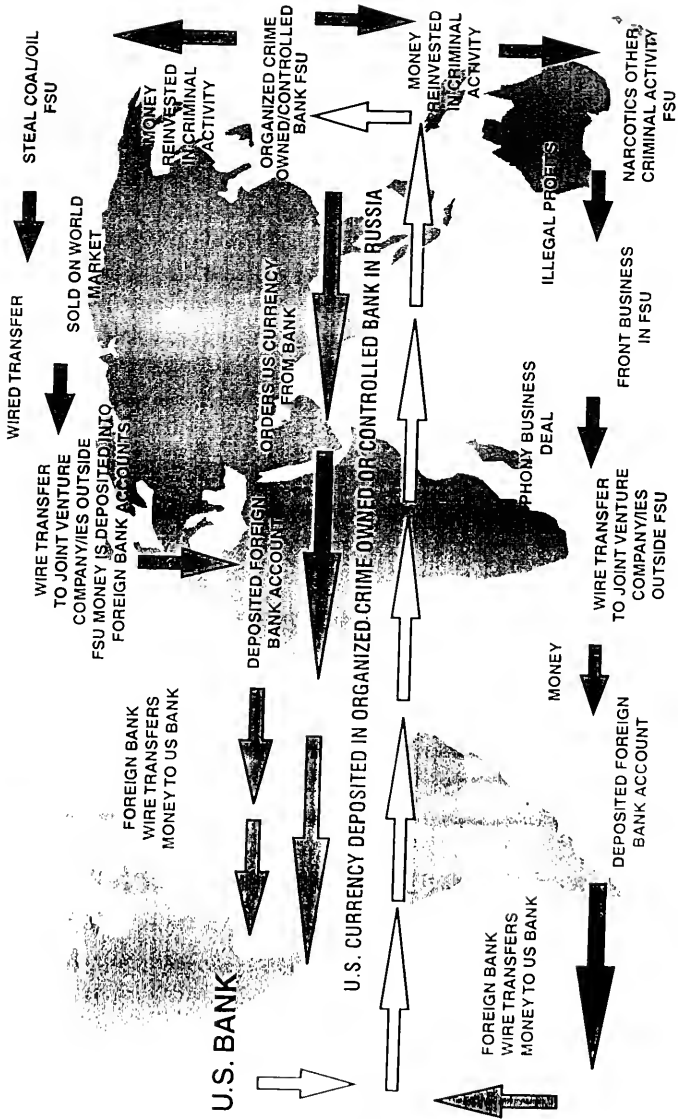


# Heroin Smuggling Organizations in New York:

## Associated with FSU Criminal Network in Northeast U.S.



# HOW THE MONEY FLOWS

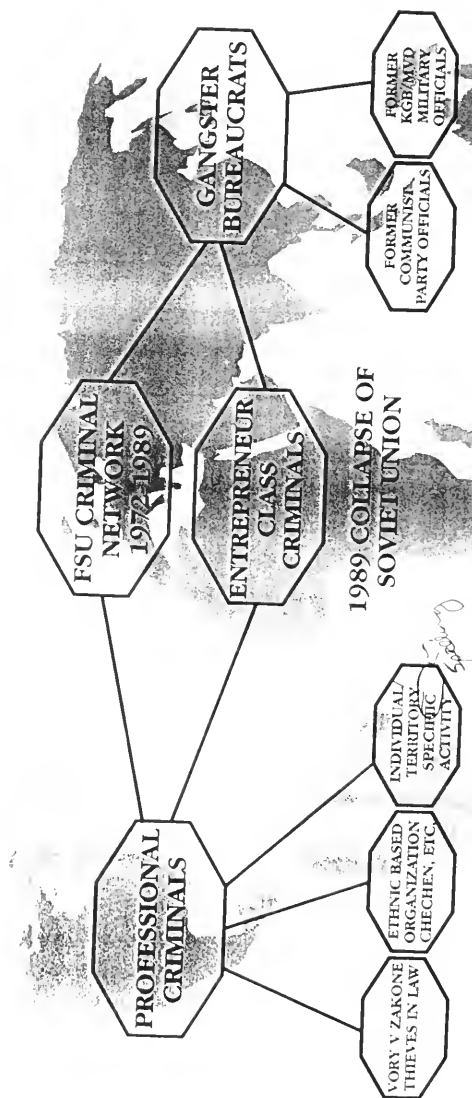


# MONEY LAUNDERING

1. Visa, fraud and front companies play a major role in Russian/Eurasian organized crime money laundering operations
2. In Russia in 1994 organized crime had an impact or controlled 80% of the legitimate businesses
3. In Russia 550 banks owned or under the control of organized crime
4. Capital flight from fraud, theft and other organized crime activities through various phony joint ventures
5. Overvaluation of merchandise
6. Phony consultant fees

# RUSSIAN/EURASIAN ORGANIZED CRIME PRESENT DAY CHALLENGE

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## ATTACHMENT III

U.S. CUSTOMER ASSISTANCE TO FORMER SOVIET UNION  
and  
Central and Eastern Europe

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action <sup>1</sup>	Participant Size and Level	Status	Subject-Objectives
Ukraine	1996	5	Technical assistance and training workshop	15 workers, supervisors, managers	Complete 1996	Investigation of smuggling of stolen vehicles and asset sharing
Ukraine	1996	5	Seminar and training workshop	15 workers, supervisors, managers	Complete 1996	Investigation of smuggling of stolen vehicles and asset sharing
Ukraine	1996	5	Seminar and training workshop	10 workers, supervisors, managers	Complete 1996	Investigation of smuggling of stolen vehicles and asset sharing

1. e.g., technical assistance, seminar, course, train the trainers, equipment

# U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION & CENTRAL AND EASTERN EUROPE

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action(s)	Participants # and Level	Completion Status	Subject(s)
Russia	1995	10	On-Site Assessment	N/A	Completed 1995	Export Control Enforcement of Kazakh Customs
Russia	1995	7	Seminar	12 Trainers	Completed 1995	Train-the-Trainer Workshop
Russia	1995	10	Observation	15 Specialists	Completed 1995	Visits and Briefings at Locations
Russia	1995	5	Observation	4 Training Managers	Completed 1995	Overview of U.S. Training Program Visits to U.S. Customs Headquarters Training Academy
Russia	1995	5	Observation	4 Data Processing Managers	Completed 1995	Overview of U.S. Customs Activities, Visits to Headquarters Data Center
Russia	1995	5	Seminar	24 Field Supervisors	Completed 1995	Non-Proliferation Border
Russia	1995	5	Seminar	24 Field Supervisors	Completed 1995	Non-Proliferation Border

1. e.g. technical assistance, seminar, course, train-the-trainers, equipment

2. e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION  
CENTRAL AND EASTERN EUROPE

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action <sup>(1)</sup>	Participants # and Level	Status	Subject-Object(s)
Estonia	1995	5	Seminar	24 Field Supervisors	Completed 4/95	Non-Proliferation Border Search
Poland	1995	5	Technical Assistance	N/A	Completed 5/95	Create a Video Training Program on Polish Customs Rules and Regulations
Poland	1995	7	Seminar	12 Trainers	Completed 5/95	Train-the-Trainer Workshop
Ukraine	1995	14	Seminar	24 Field Officers	Completed 6/95	Border Enforcement (N/A)
Turkmenistan	1995	14	Seminar	24 Field Officers Managers	Completed 7/95	Border Enforcement (N/A)
Uzbekistan	1995	12	Seminar	12 Executives	Completed 7/95	Inter-Agency Export Control Including Observation of Customs Post
Kazakhstan And Kyrgyzstan	1995	14	Observation	4 Executives	Completed 7/95	Orientation to U.S. Customs and Border Protection including Headquarters Briefing and Field Visits

(1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

(2) \* e.g. planned, ongoing, completed

# U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION & CENTRAL AND EASTERN EUROPE

Page 2

Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action <sup>(1)</sup>	Participants # and Level	Status	Subject-Objective
Romania	1995	5	Discussions & Briefings	5 Executives	Completed 7/95	Export Control Consultations in Washington
Ukraine	1995	7	Observation	4 Senior Managers	Completed 7/95	Visit to U.S. Customs Land Border Patrol Overview of Operations
Ukraine	1995	7	Observation	4 Senior Managers	Completed 7/95 8/95	Visit to U.S. Customs Seaports Overview of Operations
Tajikistan Kyrgyzstan Kazakhstan Uzbekistan Turkmenistan	1995	8	Seminar	12 Trainers	Completed 8/95	Train-The-Trainer Workshop in America
Kazakhstan	1995	4	On-Site Assessment	N/A	Completed 8/95	Assessment of Kazakhstan Customs Automation Efforts for Export Control Purposes
Bulgaria	1995	5	Discussions & Briefings	5 Executives	Completed 8/95	Export Control Consultations in Washington
Kazakhstan	1995	5	Technical	N/A	Completed 9/95	Consultations in Astana on the Organization of a Marine Patrol Program

(1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

(2) e.g. planned, ongoing, completed



U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION  
&  
CENTRAL AND EASTERN EUROPE

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Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action <sup>(1)</sup>	Participants # and Level	Status <sup>(2)</sup>	Subject-Objective
Russia	1995	7	Seminar	12 Trainees	Completed 9/95	Train-The-Trainer Workshop in Petersburg
Poland	1995	14	Seminar	24 Field Officers	Completed 9/95	Border Enforcement (Narcotics)
Ukraine	1995	14	Seminar	24 Field Officers	Completed 9/95	Border Enforcement (Narcotics)
FYR Macedonia	1995	5	Seminar	24 Field Officers	Completed 9/95	Border Enforcement (Narcotics)
Albania	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control
Bulgaria	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-proliferation Border Control
Romania	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control

- (1) e.g. technical assistance, seminar, course, train-the-trainers,  
(2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION  
&  
CENTRAL AND EASTERN EUROPE

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Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action <sup>(1)</sup>	Participants # and Level	Status <sup>(2)</sup>	Subject-Objective
Uzbekistan	1995	15	Seminar	24 Field Officers	Completed 1995	Border Enforcement (Narcotics)
Ukraine	1995	5	Seminar	24 Field Officers	Completed 9/95	Non-Proliferation Border Control
Romania	1995	5	Technical Assistance	N/A	Completed 9/95	Export control Licensing and Enforcement
FSU & CEEC Countries	1995	5	Seminar	Various	Completed 1995	Nuclear Smuggling Law Enforcement (Garmisch, Germany Venue)
Bulgaria	1995	5	Technical Assistance	N/A	Completed 9/95	Export Control Licensing and Enforcement
Russia	1995	5	Seminar	12 Executives	Completed 9/95	Inter-Agency Export Control Legal and Regulatory Forum in Washington
Belarus	1995	5	Seminar	12 Executives	Completed 9/95	Inter-Agency Export Control Legal and Regulatory Forum in Washington

- (1) e.g. technical assistance, seminar, course, train-the-trainers, equipment  
(2) e.g. planned, ongoing, completed

U.S. CUSTOMS ASSISTANCE TO FORMER SOVIET UNION  
&  
CENTRAL AND EASTERN EUROPE

Page 2

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Beneficiary Country	Year of Implementation	# of Days of the Actions	Type of Action <sup>(1)</sup>	Participants # and Level	Status <sup>(2)</sup>	Subject-Objective
Kazakhstan	1995	14	Equipment	N/A	Completed 9/95	Delivery of New U.S. Covered Provided Laboratory Equipment
Belarus	1995	14	Equipment, Technical Assistance	N/A	Completed 9/95	Installation and Implementation of New Belarus Customs Automated Systems
Belarus	1995	14	Observation	1 Executive	Completed 9/95	Visits and Briefings at U.S. Customs Locations
Ukraine	1995	10	Observation	2 Executives	Completed 11/95	Visits and Briefings at U.S. Customs Locations
Czech Republic	1996	5	Seminar	24 Field Officers	Planned 12/95	Non-Proliferation Border Control
Slovakia	1995	5	Seminar	24 Field Officers	Planned 12/95	Non-Proliferation Border Control
Czech Republic	1996	5	Field Training	24 Field Officers	Completed and Planned 2/96 & 4/96	Customs Enforcement Team

1) e.g. technical assistance, seminar, course, train-the-trainers, equipment

2) e.g. planned, ongoing, completed



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## EXECUTIVE SUMMARY

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Gangsters from the former Soviet Union have established a strong and abiding presence in the New York/New Jersey/ Pennsylvania region, engaging in a wide array of crimes that range from sophisticated financial frauds to narcotics trafficking to murder. Evidence also shows that members of disparate Russian-emigre crime groups here have the potential to develop into one of the most formidable organized crime challenges to law enforcement since the advent of *La Cosa Nostra*.

These are among the key findings of the Tri-State Joint Soviet-Emigre Organized Crime Project, a cooperative research and investigative effort launched four years ago by four agencies in New York, New Jersey and Pennsylvania - the New York Organized Crime Task Force, the New York State Commission of Investigation, the New Jersey State Commission of Investigation and the Pennsylvania Crime Commission. Investigative agents and staff from these agencies conducted the project in conjunction with criminal justice experts from Rutgers University.

The Project's report presents the first comprehensive public assessment of the threat posed to this region by criminal elements emanating from within the former Soviet Union.

The report catalogues the history and growth of Russian-emigre crime networks, from their core base in the Brighton Beach section of Brooklyn to their current reach well beyond the New York metropolitan area into the counties of central New Jersey and the suburbs of Philadelphia. One of the most troubling aspects is evidence of links between individuals here and criminal elements in the former Soviet Union, a phenomenon that lends a disturbing and complex international dimension to this emerging domestic law enforcement problem.

The range of criminal and illicit activities linked to these groups is impressive. The Project report details Russian-emigre involvement in a variety of highly sophisticated frauds and

confidence schemes, financial crimes, including money laundering, counterfeiting and securities fraud, narcotics trafficking and an assortment of vice crimes.

Russian-emigre criminals are no strangers to violence either. Project investigators gathered information regarding more than seventy murders or attempted murders committed since 1981 involving Russian emigres. In each instance, the evidence suggests a link to ongoing criminal activity. Many of the homicides appeared to have been well-planned. In some cases, assassins were used to commit them.

A primary issue examined by the Project was whether, given the scope and growth of criminal activities linked to Russian-emigre groups in this region, they have developed a level of structure and organization of the sort that enabled other crime groups, such as *La Cosa Nostra*, to flourish for much of this century. This issue is important because an accurate picture is necessary to define and shape an effective response by the law enforcement community.

Based upon its investigation, the Project concludes that Russian-emigre criminals do indeed constitute a real and identifiable crime threat in the United States, particularly in this region - albeit one that is still evolving. Alliances between Russian criminals and their *LCN* counterparts, for example, already have been engineered, as evidenced in a number of recent motor-fuel tax fraud investigations. Given the sophisticated nature of their criminal activities, as well as the extensive planning and coordination that those activities require, it may be only a matter of time before the Russian-emigre crime threat becomes even more critical.

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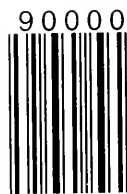




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